

# Fundamental Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA  
Analyst

August 19, 2016

## eXp World Holdings, Inc. (OTCQB: EXPI): Q2-2016 revenues blow past expectations

Sector/Industry: Real Estate / Brokerage

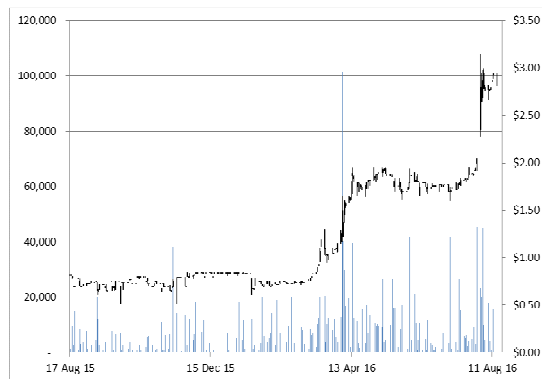
expworldholdings.com

### Market Data (as of August 19, 2016)

Current Price	US\$2.84
Fair Value	US\$4.06
Rating*	BUY
Risk*	4
52 Week Range	US\$0.51 - US\$3.15
Shares O/S	51.13 mm
Market Cap	US\$145.21 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	305.7%
YoY OTCQX	1.1%

\*See back of report for rating and risk definitions

\*All of the figures are in US\$ unless otherwise specified.



### Highlights

- eXp World Holdings, Inc. (“company”, “eXp”) reported record revenues of \$13.28 million in Q2-2016, up 138% YOY. In the six month period, revenues were \$20.42 million, up by 126% YOY.
- eXp’s share price is up by 143% since we initiated coverage on April 5, 2016.
- The significant increase in share price prompted the company to report \$6.60 million in stock based compensation in the quarter.
- Excluding stock based compensation, the company would have reported net profit of \$0.59 million (EPS: \$0.01) versus \$0.06 million (EPS: \$0.00) in Q2-2015.
- We are raising our revenue forecast for 2016 from \$40.50 million to \$48.94 million.
- The company maintains a reasonably healthy balance sheet, with no debt.
- In July 2016, the company appointed two high profile individuals to its board. The company also hired a Chief Strategy Officer/General Counsel.
- Since our previous report in May 2016, the company has expanded its membership count by 31%, from 1,204 to 1,580. Management has raised their target from 1,800+ to 2,100+ members by the end of 2016.
- We are raising our fair value estimate from \$3.35 to \$4.06 per share.

### Key Financial Data

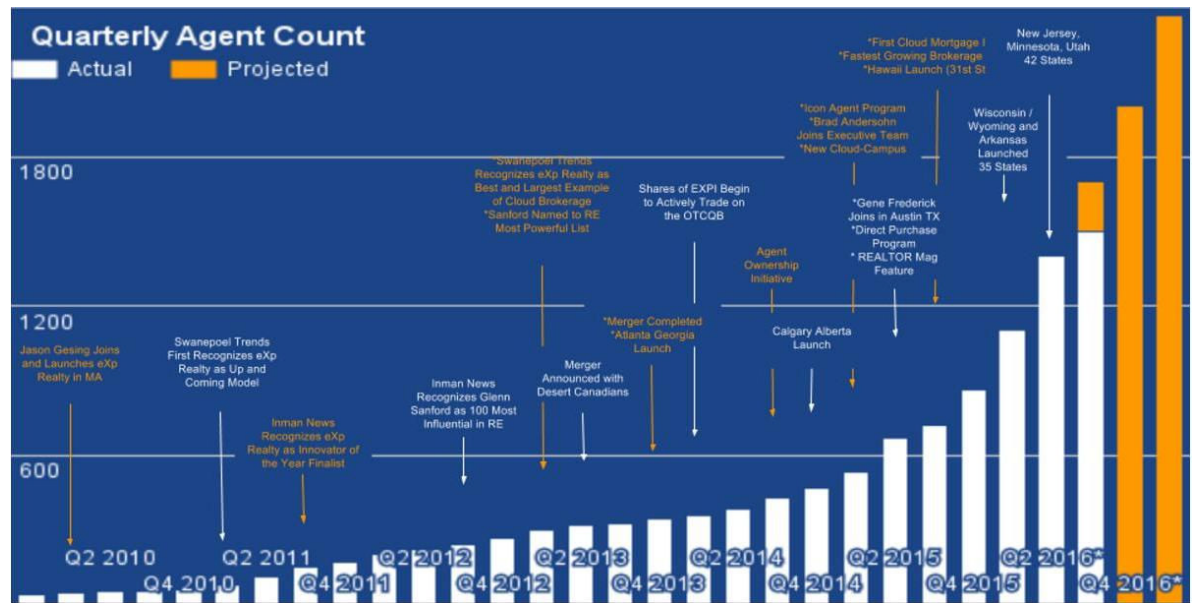
(in US\$); YE - Dec 31	2011	2012	2013	2014	2015	2016E	2017E
Revenues	4,199,617	6,706,145	10,701,280	13,368,905	22,866,787	48,937,500	82,500,000
Gross Margin	18.7%	15.6%	16.8%	17.0%	14.9%	13.8%	14.0%
EBITDA	23,109	(64,740)	(1,114,166)	47,925	(4,472,498)	(5,252,119)	2,273,128
Net Income	13,496	(75,492)	(1,118,861)	103,843	(4,581,449)	(5,307,217)	1,411,208
EPS (basic)	0.00	(0.00)	(0.00)	0.00	(0.09)	(0.10)	0.03
Debt to Capital	143.9%	-815.6%	81.0%	13.0%	0.0%	0.0%	0.0%

**Membership count rises to 1,580**

In July 2016, the company announced that it has commenced operations in two additional states (New Jersey and Utah). The company had added four new states in May. eXp now operates in 40 states across the U.S.

Since our previous report in May 2016, the company has expanded its membership count by 31%, from 1,204 to 1,580. The platform only had 665 real estate brokers and agents as members as of June 30, 2015.

The following chart shows management’s guidance. **Their goal is to have 2,100+ members by the end of 2016, 3,500+ by the end of 2017, and 10,000+ by 2020.**



Source: Company

eXp’s cloud based platform allows brokers / agents to conduct their business and be a part of a larger brokerage at a significantly lower cost than traditional brokerages. **The company continues to expand and improve its offerings to its members.** Here are two examples:

- eXp maintains membership in over 100 multiple listing services (“MLS”) across North America; management of eXp believes that they have the capability to offer a robust, high-quality lead generation program to its members at a significantly lower cost than leads sold by third-party data syndicators (database companies), such as REALTOR.com, Market Leader, Zillow (Nasdaq: Z), Trulia, etc. Lead generation is critical for brokers/agents and we believe eXp’s ability to provide strong lead generation at reasonable prices will determine their ability to retain agents over the long-term.
- In order to encourage brand loyalty, eXp offers equity incentive programs to agents and brokers. The company also introduced a program wherein agents and brokers could elect

*Developing In-house Enterprise Application*

to be paid 5% of their commissions in the form of restricted common shares. We believe such initiatives are an excellent strategy to improve brand loyalty and agent retention in an industry that otherwise has higher turnover and attrition rates.

eXp currently licenses its cloud campus technology from an unrelated private company. In our previous reports, we had mentioned that the company is evaluating options to insource all the critical aspects related to their platform, either through acquisitions or through other 3D immersive platforms. In their recent 10-Q statement, the company disclosed that they have commenced development of an enterprise application, which will offer them increased scalability without experiencing limitations on functionality.

*First Cloud*

Revenues from First Cloud were \$92k in Q2-2016. First Cloud started reporting revenues (\$26,330) in Q1-2016. Management estimates First Cloud to broker \$50 million to \$75 million in loans in the next 12 months, and over \$100 million in 2017. First Cloud is expected to generate gross profits of 1.5% - 3.0% of the transactions.

First Cloud operates as a mortgage broker and does not lend its own funds. They are currently licensed to originate mortgages in California, Arizona, New Mexico, and Texas, with pending applications in Virginia and Georgia. As mentioned in our previous reports, eXp’s long-term strategy is to derive additional revenues from ancillary services related to real estate transactions. eXp owns a 89.4% interest in this entity.

*Strengthens Board and Management Team*

On July 29, 2016, eXp announced the appointment of Russ Cofano as Chief Strategy Officer and General Counsel.

**Russ Cofano, CSO and General Counsel**

Russ Cofano joined the Company as its Chief Strategy Officer and General Counsel on July 29, 2016. Prior to joining eXp, Russ was Senior Vice President of Industry Relations for Move, Inc., operator of realtor.com. At Move, Russ was instrumental in reinvigorating realtor.com’s relationship with MLSs and associations and was a key influencer in realtor.com product improvements. Prior to Move, Russ served as Chief Executive Officer for the Missouri REALTORS®. In just three short years, Russ super-charged the association with a re-energized staff, new strategic plan, innovative member focused governance structure, private member-only social network, and implementation of a new governmental affairs program for local markets. Prior to his stint in Missouri, Russ was Vice President and General Counsel to John L. Scott Real Estate, consistently ranked as one of the largest real estate brokerage companies in the nation, and helped JLS weather the great recession. Russ is a noted author, speaker and consultant in organized real estate, having worked at executive levels in nearly every segment of the industry. Russ was also a private practice attorney for many years where he advised on matters involving real estate brokerage, REALTOR associations, MLSs, technology and intellectual property, mergers and acquisitions, business transactions and franchising.

On July 26, 2016, the company the addition of two high-profile independent board members. **The company’s board currently consists of six members, of which three are**

**independent.** When we initiated coverage on the company in May 2016, the company had a three member board, with one independent member. Brief biographies of the new members are presented below.

**Randall Miles, Director**

For over 25 years Mr. Miles has held senior leadership positions in global financial services, financial technology and investment banking companies. His extensive investment banking background at bulge bracket, regional and boutique firms advising financial services companies on strategic and financial needs has crossed many disciplines.

Mr. Miles’ transactional and advisory experience is complemented by leadership of public and private equity backed financial technology, specialty finance and software companies including Chairman and CEO at LIONMTS where he was nominated for the Ernst & Young Entrepreneur of the Year award, CEO at Syngence Corporation, COO of AtlasBanc Holdings Corp. and CEO of Advantage Funding / NAFCO Holdings which grew to in excess of \$1 billion. Mr. Miles is currently Managing Partner at SCM Capital Group, a global strategic and financial advisory firm and Senior Managing Director at Tigress Financial Partners, a full service institutional broker dealer where is he is head of Investment Banking. Most recently, Mr. Miles served as Senior Managing Director, Head of FIG and COO, Investment Banking at Cantor Fitzgerald & Co. Mr. Miles has held senior leadership roles at Oppenheimer & Co., D.A. Davidson and & Co., The First Boston Corporation (Credit Suisse) Meridian Capital and Greenwich Capital Markets. Mr. Miles has broad public, private and nonprofit board experience and has been active for many years in leadership roles with the Make-A-Wish Foundation. He presently serves on the boards of Kuity, Corp. and Posiba, Inc. as Vice Chairman and Chairman respectively. Mr. Miles holds a BBA from the University of Washington and holds FINRA licenses Series 7, 24, 63 and 79.

**Rick Miller, Director**

For over 25 years Mr. Miller has held senior leadership positions in companies ranging from a Fortune 10 to a startup. His extensive experience as a turnaround specialist and an expert in sustainable growth has been applied as an executive inside organizations and as a confidant advising from outside companies. Mr. Miller began his career as a sales trainee at Sperry/Unisys and left 15 years later as Divisional VP/GM of North America. Mr. Miller was recruited by AT&T where he served as President of Global Services. He later served as President, COO, and as a Board member at internet startup OPUS360 where he led the company’s successful IPO. Mr. Miller was later recruited by Lucent Technologies to lead their worldwide sales efforts. Later, he was named President, Lucent Government Solutions. Mr. Miller also served as CEO at the Balance & Stretch Center, a non-profit focused on supporting children with diabetes. Mr. Miller is currently Chief at Being Chief LLC where he serves as an advisor to a broad range of senior business leaders, across a diverse number of industries. He is also an author and public speaker. Mr. Miller’s success and unconventional approach has been highlighted in Harvard Business Review, Selling Power, USA Today, and MSN Business. Most recently, Mr. Miller was named to serve on the Executive Committee for the Strategic Innovation Lab at Case University’s Fowler Center

*Financials*

for Business as an Agent of World Benefit, focusing on sustainable growth. Mr. Miller has earned a Bachelor of Arts degree in Management from Bentley University and a Master's degree in Business Administration from Columbia University.

In Q2-2016, revenues grew by 138% YOY to \$13.28 million. The company had reported 107% YOY growth in Q1. In the six month period, revenues were \$20.42 million, up by 126% YOY. Our discussions with management indicated that they intend to start providing detailed breakdowns in the future, such as the total transactions in a quarter, the average transactions per member, and average commission received by members.

	Q1-2015	Q1-2016	YOY Change	Q2-2015	Q2-2016	YOY Change
Real Estate Brokerage Services	3,471,675	7,171,178	106.6%	5,610,614	13,277,350	136.6%
Mortgage Origination Services		26,330			91,997	
Corporate and Other	-22,434	-54,696		-25,651	-87,319	
<b>Total</b>	<b>3,449,241</b>	<b>7,142,812</b>	<b>107.1%</b>	<b>5,584,963</b>	<b>13,282,028</b>	<b>137.8%</b>

	2015 (6M)	2016 (6M)	YOY Change
Real Estate Brokerage Services	9,082,289	20,448,528	125.1%
Mortgage Origination Services		118,327	
Corporate and Other	-48,085	-142,015	
<b>Total</b>	<b>9,034,204</b>	<b>20,424,840</b>	<b>126.1%</b>

Revenues from the U.S. accounted for 98% of the total in Q2, and the first six months of 2016.

**We are raising our revenue forecast for 2016 from \$40.50 million to \$48.94 million, and for 2017 from \$72.00 million to \$82.50 million. We are also raising our long-term forecasts. In our previous models, we had assumed growth to 10,000 members by 2020. We are now extending our models based on the assumption that membership will increase to 15,000 by 2022.**

Gross margins dropped from 14.6% to 13.7% and were lower than our expectations. Cost of revenues includes costs related to sales agent commissions and revenue sharing. We are lowering our gross margin estimate for the entire year from 15% to 13.8%, and maintaining our 2017 estimate at 14%. Gross margins dropped because of a higher rate of commission granted to many of the new high-volume agents.

Margins	Q1-2015	Q1-2016	Q2-2015	Q2-2016	2015 (6M)	2016 (6M)
Gross	16.6%	14.4%	14.6%	13.7%	15.4%	14.0%
EBITDA	0.1%	-8.4%	-89.3%	-45.1%	-55.1%	-32.3%
EBIT	0.0%	-8.6%	-89.4%	-45.2%	-55.3%	-32.4%
Net	-0.5%	-8.7%	-89.5%	-45.2%	-55.5%	-32.4%
Net (adjusted)	-2.6%	0.9%	1.1%	4.5%	-0.3%	3.2%

Expense as a % of Revenues	Q1-2015	Q1-2016	Q2-2015	Q2-2016	2015 (6M)	2016 (6M)
General and administrative	15.0%	10.2%	10.8%	7.2%	12.4%	8.2%
Stock based compensation	-2.1%	9.6%	90.5%	49.7%	55.2%	35.7%
Professional fees	2.2%	2.0%	1.8%	1.0%	1.9%	1.3%
Sales and marketing	1.3%	1.1%	0.8%	0.9%	1.0%	1.0%
<b>Total</b>	<b>16.5%</b>	<b>22.9%</b>	<b>103.9%</b>	<b>58.8%</b>	<b>70.5%</b>	<b>46.2%</b>

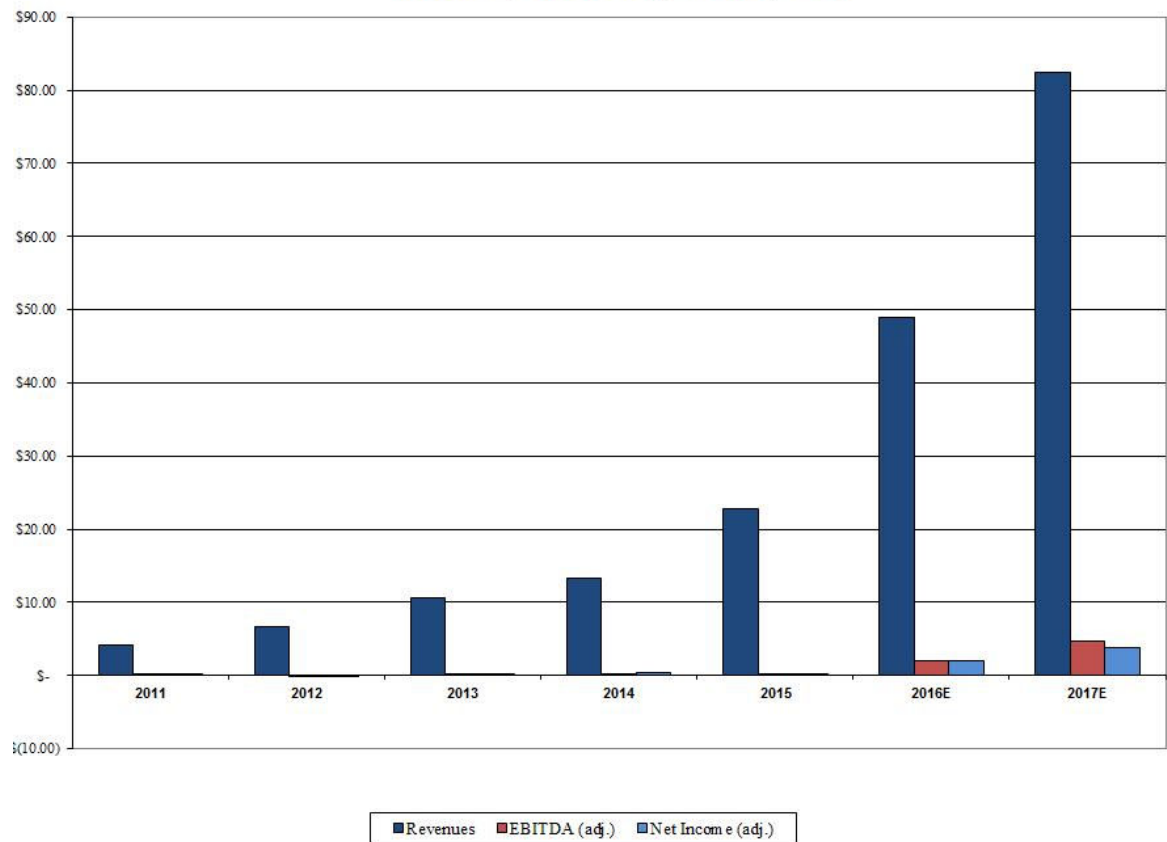
Total operating expenses increased YOY by 35% to \$7.81 million (59% of revenues). The company reported \$6.60 million of stock based compensation in the quarter versus \$5.06 million in Q2-2015. **Excluding stock based compensation, operating expenses were \$1.20 million (9.1% of revenues) versus \$0.95 million in Q1-2016 (13% of revenues) or \$0.75 million in Q2-2015 (13.4% of revenues).** We have slightly raised our operating expense estimates for 2016 (9.7% of revenues) and 2017 (8.2% of revenues).

eXp reported a net loss of \$6.01 million (EPS: -\$0.12) in Q2-2016 versus a net loss of \$5.00 million (EPS: -\$0.10) in Q2-2015. Excluding stock based compensation, the company would have reported net profit of \$0.59 million (EPS: \$0.01) versus \$0.06 million (EPS: \$0.00) in Q2-2015. For the six month period, net profit (excluding stock based compensation) was \$0.66 million (EPS: \$0.01) versus -\$0.03 million (EPS: -\$0.00) in the comparable period in the previous year.

We are revising our 2016 forecast to a net loss of \$5.31 million (EPS: -\$0.10) from net income of \$0.72 million (EPS: \$0.01). We are raising our 2017 forecasts from \$1.03 million (EPS: \$0.02) to \$1.41 million (EPS: \$0.03). **Excluding stock based compensation, our forecasts for 2016, and 2017, are net profits of \$1.98 million (EPS: \$0.04) and \$3.89 million (EPS: \$0.08), respectively.**

The following chart shows our projections.

Revenues, Adj. EBITDA and Adj. Net Profit (US\$,mm)



**Cash Flows**

Free cash flows (“FCF”) were \$0.31 million in the first six months of 2016 versus -\$0.03 million in the comparable period in the previous year.

Summary of Cash Flows		
(US\$, mm)	2015 (6M)	2016 (6M)
Operating	\$0.00	\$0.46
Investing	-\$0.03	-\$0.15
Financing	-\$0.02	\$0.00
Effects of Exchange Rate	-\$0.01	\$0.01
<b>Net</b>	<b>-\$0.07</b>	<b>\$0.31</b>
<b>Free Cash Flows to Firm (FCF)</b>	<b>-\$0.03</b>	<b>\$0.31</b>

**Balance Sheet**

At the end of Q2-2016, the company had \$0.42 million in cash. Working capital and the current ratio were \$0.49 million and 1.5x, respectively. The following table shows the

company's cash and liquidity position.

Liquidity & Capital Structure (US\$)	2015	Q1-2016	Q2-2016
Cash	571,814	424,501	886,193
Working Capital	482,311	493,725	1,007,302
Current Ratio	1.7	1.5	1.7
LT Debt	-	-	-
Total Debt	-	-	-
LT Debt / Capital	0.0%	0.0%	0.0%
Total Debt / Capital	0.0%	0.0%	0.0%
EBIT Interest Coverage (excl. stock comp)	258.9	N/A	N/A

*Stock Options and Warrants*

eXp currently has 8.5 million options (weighted average exercise price – \$0.29), and no warrants outstanding. All the options are currently in the money. The company can raise up to \$2.43 million if all these options are exercised.

*Valuation and Rating*

**Our Discounted Cash Flow (“DCF”) valuation increased from \$3.35 to \$4.06 per share as we raised our short-term and long-term forecasts. We are maintaining our BUY rating and risk 4 rating.**


DCF Valuation (US\$)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	Terminal
Funds Flow from Operations	\$1,360,400	\$3,988,247	\$5,917,688	\$9,281,181	\$14,891,671	\$19,521,005	\$23,797,481	
-increase in w/c	-\$427,075	-\$277,351	-\$870,606	-\$666,601	-\$903,726	-\$948,912	-\$903,726	
Cash Flows from Operations	\$933,325	\$3,710,896	\$5,047,082	\$8,614,579	\$13,987,945	\$18,572,092	\$22,893,755	
-capex	-\$49,672	-\$500,000	-\$500,000	-\$500,000	-\$500,000	-\$500,000	-\$500,000	
Free Cash Flows	\$883,653	\$3,210,896	\$4,547,082	\$8,114,579	\$13,487,945	\$18,072,092	\$22,393,755	\$352,202,778
<b>Present Value</b>	<b>\$862,455</b>	<b>\$2,843,802</b>	<b>\$3,654,469</b>	<b>\$5,918,012</b>	<b>\$8,926,352</b>	<b>\$10,853,131</b>	<b>\$12,203,712</b>	<b>\$191,936,606</b>
Discount Rate	10.2%							
Terminal Growth	3%							
Present Value	\$237,198,538							
Cash - Debt	\$1,235,310							
Fair Value	\$238,433,848							
Shares O/S (treasury stock method)	58,763,111							
<b>Value per share (US\$)</b>	<b>\$4.06</b>							

*Risks*

The following risks may cause our estimates to differ from actual results (not exhaustive):

- The real estate brokerage industry is highly competitive.
- The company's ability to adapt to technological advancements will play a vital role in its long-term success.
- The company's profitability is highly dependent on the overall health of the real estate market.
- eXp is in a growth phase and has a relatively short track record. Long-term retention of agents has yet to be proven.



- 
- As with any real estate brokerage, the company is also susceptible to negative changes to the regulatory laws.

## Appendix

<b>STATEMENTS OF OPERATIONS</b>				
(in US\$) - YE Dec 31st	2014	2015	2016E	2017E
Net Revenues	13,368,905	22,866,787	48,937,500	82,500,000
COGS	11,099,750	19,456,409	42,180,538	70,950,000
<b>Gross Profit</b>	<b>2,269,155</b>	<b>3,410,378</b>	<b>6,756,962</b>	<b>11,550,000</b>
<b>EXPENSES</b>				
General and administrative	1,635,555	2,441,089	3,678,438	4,950,000
Stock based compensation	233,098	4,790,568	7,282,749	2,475,000
Professional fees	276,558	439,763	558,520	614,372
Sales and marketing	76,019	211,456	489,375	1,237,500
<b>EBITDA</b>	<b>47,925</b>	<b>(4,472,498)</b>	<b>(5,252,119)</b>	<b>2,273,128</b>
Amortization	14,493	26,304	55,098	102,039
<b>EBIT</b>	<b>33,432</b>	<b>(4,498,802)</b>	<b>(5,307,217)</b>	<b>2,171,089</b>
Other income	0	23	-	-
Interest expense	-942	-1,127		
<b>EBT</b>	<b>32,490</b>	<b>(4,499,906)</b>	<b>(5,307,217)</b>	<b>2,171,089</b>
Taxes	-71,353	103,069	0	759,881
<b>Net Profit (Loss)</b>	<b>103,843</b>	<b>(4,602,975)</b>	<b>(5,307,217)</b>	<b>1,411,208</b>
EPS	0.00	-0.09	-0.10	0.03
Non-controlling interests		21,526	-	-
<b>Net Profit (Loss) to common shareholders</b>	<b>103,843</b>	<b>-4,581,449</b>	<b>-5,307,217</b>	<b>1,411,208</b>
EPS	0.00	-0.09	-0.10	0.03

<b>BALANCE SHEETS</b>				
<b>(in US\$) - YE Dec 31st</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>
<b>ASSETS</b>				
<b>CURRENT</b>				
Cash and cash equiv.	353,374	571,814	1,764,757	4,975,653
Restricted cash	141,508	148,613	148,613	148,613
A/R	189,026	341,643	1,419,614	2,393,220
Prepaid	74,673	84,451	170,272	287,048
<b>Total Current Assets</b>	<b>758,581</b>	<b>1,146,521</b>	<b>3,503,256</b>	<b>7,804,534</b>
Fixed assets	79,393	110,195	255,098	653,059
Deferred tax assets	75,196			
<b>Total Assets</b>	<b>913,170</b>	<b>1,256,716</b>	<b>3,758,353</b>	<b>8,457,592</b>
<b>LIABILITIES</b>				
<b>CURRENT</b>				
A/P	79,389	89,984	183,596	308,819
Customer deposits	141,508	148,613	310,446	523,357
Accrued expenses / interest	216,720	425,613	696,273	1,171,170
Notes payable	61,887			
Due to related party				
<b>Total Current Liabilities</b>	<b>499,504</b>	<b>664,210</b>	<b>1,190,315</b>	<b>2,003,346</b>
Notes payable				
<b>SHAREHOLDERS EQUITY</b>				
Share capital	1,824,847	6,612,283	6,612,283	6,612,283
Accumulated deficit / comprehensive loss	-1,411,181	-6,000,201	-4,024,669	-138,461
Non-controlling interests		-19,576	-19,576	-19,576
<b>Total shareholders' equity (deficiency)</b>	<b>413,666</b>	<b>592,506</b>	<b>2,568,038</b>	<b>6,454,246</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>913,170</b>	<b>1,256,716</b>	<b>3,758,353</b>	<b>8,457,592</b>

<b>STATEMENTS OF CASH FLOWS</b>				
<b>(in US\$) - YE Dec 31st</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>
<b>OPERATING ACTIVITIES</b>				
Net profit for the year	103,843	-4,602,975	-5,307,217	1,411,208
<b>Adjusted for items not involving cash:</b>				
Depreciation	14,493	26,304	55,098	102,039
Stock compensation / option expense	233,098	4,790,568	7,282,749	2,475,000
Deferred tax asset	-75,196	75,196		
<b>Funds From Operations</b>	<b>276,238</b>	<b>289,093</b>	<b>2,030,630</b>	<b>3,988,247</b>
<b>Change in working capital</b>				
A/R	-81,186	-152,617	-1,077,971	-973,605
Prepaid	-34,880	-9,778	-85,821	-116,776
A/P	23,563	10,595	93,612	125,223
Accrued expenses	78,939	208,893	432,493	687,808
Due to related parties	-18,232			
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>244,442</b>	<b>346,186</b>	<b>1,392,943</b>	<b>3,710,896</b>
<b>INVESTING ACTIVITIES</b>				
PP&E	-49,032	-57,116	-200,000	-500,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-49,032</b>	<b>-57,116</b>	<b>-200,000</b>	<b>-500,000</b>
<b>FINANCING ACTIVITIES</b>				
Equity	59,450	-1,182		
Debt		-61,877		
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>59,450</b>	<b>-63,059</b>	<b>0</b>	<b>0</b>
<b>Foreign Exchange / Others</b>	<b>-1,542</b>	<b>-7,571</b>		
<b>INCREASE IN CASH FOR THE YEAR</b>	<b>253,318</b>	<b>218,440</b>	<b>1,192,943</b>	<b>3,210,896</b>
CASH, BEGINNING OF THE YEAR	100,056	353,374	571,814	1,764,757
<b>CASH, END OF THE YEAR</b>	<b>353,374</b>	<b>571,814</b>	<b>1,764,757</b>	<b>4,975,653</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company’s capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

**Disclaimers and Disclosure**

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any “forward looking statements” are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. “FRC” does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by eXp to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, eXp has agreed to a minimum coverage term including four updates. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time.

The distribution of FRC’s ratings are as follows: BUY (70%), HOLD (8%), SELL (5%), SUSPEND (17%).

To subscribe for real-time access to research, visit <http://www.researchfrc.com/subscription.htm> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock’s performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company’s products/services in the marketplace; acceptance in the marketplace of the Company’s new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company’s periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE’S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.