

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

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eXp World Holdings, Inc. (OTCQB: EXPI): Agent count continues to grow rapidly; Raising valuation

Sector/Industry: Real Estate / Brokerage

expworldholdings.com

Market Data (as of November 21, 2016)

Current Price	US\$4.50
Fair Value	US\$6.78
Rating*	BUY
Risk*	4
52 Week Range	US\$1.60 - US\$5.84
Shares O/S	51.37 mm
Market Cap	US\$231.17 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	542.9%
YoY OTCQX	0.2%

*See back of report for rating and risk definitions

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



Highlights

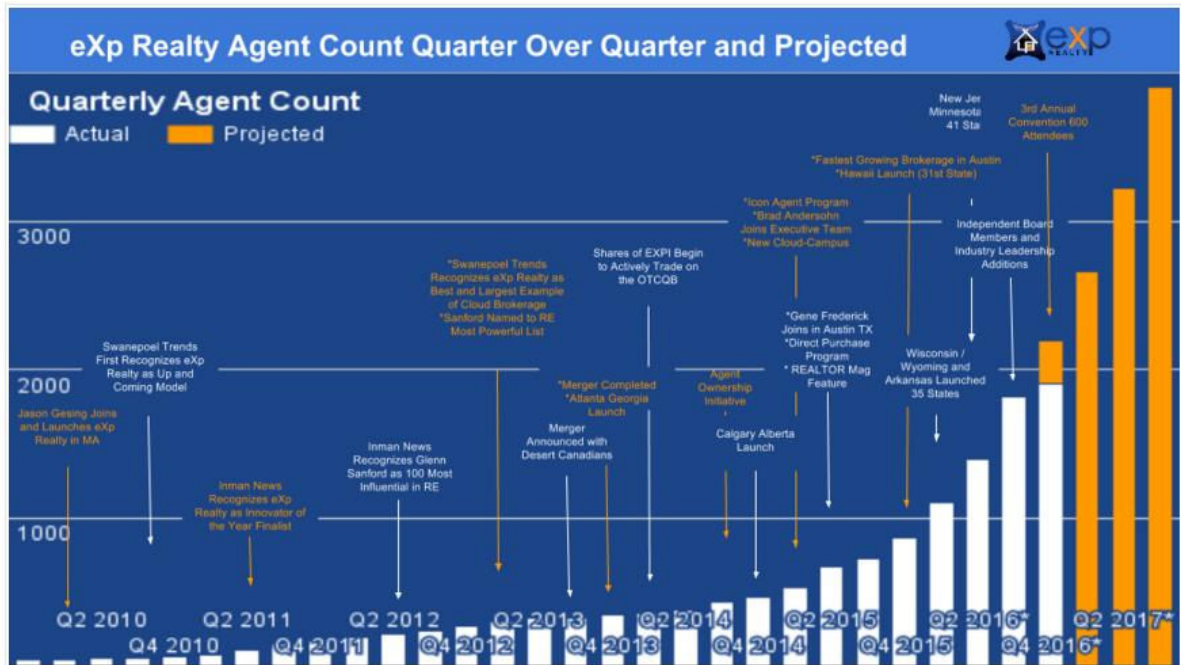
- eXp World Holdings Inc. (“company”, “eXp”) reported another record quarter. Revenues and agent count were well above our estimates.
- In Q3-2016, revenues increased by 112% YoY to \$15.76 million. In the nine month period, revenues were \$36.18 million, up by 120% YoY.
- Gross margins increased YoY from 14.3% to 15.6% in Q3, and beat our estimate.
- The significant increase in share price this year prompted the company to report \$15.43 million in stock based compensation in the quarter.
- Excluding stock based compensation, the company would have reported net profit of \$0.79 million (EPS: \$0.02) in Q3-2016, versus \$0.27 million (EPS: \$0.01) in Q3-2015.
- eXp’s agent count increased to 2,130, up from 1,580 at the time of our previous update report in August 2016. The platform continues to attract top selling brokers.
- Healthy balance sheet with no debt.
- We are raising our fair value estimate on EXPI from \$4.06 to \$6.78 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	53,460,000	101,430,000
Gross Margin	18.7%	15.6%	16.8%	17.0%	14.9%	14.8%	14.5%
EBITDA	23,109	(64,740)	(1,114,166)	47,925	(4,472,498)	(20,465,342)	3,393,081
Net Income	13,496	(75,492)	(1,118,861)	103,843	(4,581,449)	(20,520,440)	2,087,177
EPS (basic)	0.00	(0.00)	(0.00)	0.00	(0.09)	(0.40)	0.04
Debt to Capital	143.9%	-815.6%	81.0%	13.0%	0.0%	0.0%	0.0%

Membership count rises to 2,130

eXp’s agent count increased to 2,130, from 1,580 at the time of our previous update report in August 2016, reflecting an increase of approximately 200 new agents a month. Note that the platform only had 864 agents at the beginning of the year. Management now expects the agent count to exceed 2,200 by the end of the year, up from their previous estimate of over 2,000.



Since our previous report, the company added one more state (Alaska), and currently operates across 41 states the U.S. In September and October, the company announced that several leading independent real estate brokers joined the platform, including ones in Arkansas, Northern California, and South Texas. **The company’s ability to attract top selling brokers, we believe, is vital and will allow them to continue to rapidly grow the agent-base.**

Financials

In Q3-2016, revenues grew by 112% YOY to \$15.76 million. The company had reported 126% YOY growth in the first half of the year. In the nine month period, revenues were \$36.18 million, up by 120% YOY. The following chart shows the growth in revenues and agent count.



Management had indicated to us earlier 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.

Our year-end agent forecast is now at 2,400 versus our previous estimate of 2,100. We are also raising the 2017 average agent count, while maintaining the 2017 year-end count at 4,500. **We are accordingly raising our revenue forecast for 2016 from \$48.94 million to \$53.46 million, and for 2017 from \$82.50 million to \$101.43 million.** We are also raising our long-term agent count forecast from 15,000 to 25,000 by 2022.

Gross margins increased YoY from 14.3% to 15.6% in Q3. We were **pleased with the improvement** considering that gross margins had dropped YoY from 15.4% to 14.0% in the first half of the year. Cost of revenues includes costs related to sales agent commissions and revenue sharing. We are raising our gross margin estimate for the entire year from 13.8% to 14.8%, and our 2017 estimate from 14% to 14.5%.

Margins	Q3-2015	Q3-2016	2015 (9M)	2016 (9M)
Gross	14.3%	15.6%	14.9%	14.7%
EBITDA	33.5%	-83.4%	-15.2%	-54.5%
EBIT	20.4%	-93.0%	-21.2%	-58.8%
Net	20.4%	-93.0%	-21.3%	-58.8%
Net (adjusted)	3.6%	5.0%	1.4%	4.0%

The company reported \$15.43 million of stock based compensation in the quarter versus - \$1.25 million in Q3-2015 (the negative expense was because of a drop in share price in Q3-2015). Excluding stock based compensation, operating expenses were \$1.67 million (10.6% of revenues) in Q3-2016, versus \$0.80 million (10.7% of revenues) in Q3-2015, and in line with our estimate.

eXp reported a net loss of \$14.65 million (EPS: -\$0.29) in Q3-2016, versus net profit of \$1.52 million (EPS: \$0.03) in Q3-2015. Excluding stock based compensation, the company would have reported net profit of \$0.79 million (EPS: \$0.02) versus \$0.27 million (EPS: \$0.01) in Q3-2015. For the nine month period, net profit (excluding stock based compensation) was \$1.44 million (EPS: \$0.03) versus \$0.24 million (EPS: \$0.01) in the comparable period in the previous year.

We are revising our 2016 forecast to a net loss of \$20.52 million (EPS: -\$0.40) from \$5.31 million (EPS: -\$0.10). We are raising our 2017 forecasts from \$1.41 million (EPS: \$0.03) to \$2.09 million (EPS: \$0.04). Excluding stock based compensation, our forecasts for 2016, and 2017, are net profits of \$2.19 million (EPS: \$0.04) and \$5.13 million (EPS: \$0.10), respectively.

Cash Flows

Free cash flows (“FCF”) were \$0.36 million in the first nine months of 2016 versus \$0.18 million in the comparable period in the previous year.

Summary of Cash Flows		
(US\$, mm)	2015 (9M)	2016 (9M)
Operating	\$0.22	\$0.64
Investing	-\$0.04	-\$0.28
Financing	-\$0.06	\$0.00
Effects of Exchange Rate	-\$0.02	\$0.02
Net	\$0.10	\$0.37
Free Cash Flows to Firm (FCF)	\$0.18	\$0.36

Balance Sheet

At the end of Q3-2016, the company had \$0.94 million in cash. Working capital and the current ratio were \$1.67 million and 2.1x, respectively. The following table shows the company’s cash and liquidity position.

Stock Options and Warrants

Valuation and Rating

Liquidity & Capital Structure (US\$)	2014	2015	Q3-2016
Cash	353,374	571,814	944,096
Working Capital	259,077	482,311	1,671,645
Current Ratio	1.5	1.7	2.1
LT Debt	-	-	-
Total Debt	61,887	-	-
LT Debt / Capital	0.0%	0.0%	0.0%
Total Debt / Capital	13.0%	0.0%	0.0%
EBIT Interest Coverage (excl. stock comp)	282.9	258.9	N/A

As of September 30, 2016, there were 6.79 million options with exercise prices between \$0.13 and \$0.27, with approximately 6.25 years of remaining life. There were also 4.44 million options with exercise prices between \$0.30 and \$2.18, with approximately 8 to 10 years of remaining life.

In October 2016, the company decided to wind down First Cloud’s operations in order to focus on its primary business. First Cloud operated as a mortgage broker with licenses in California, Arizona, New Mexico, and Texas.

Our revised Discounted Cash Flow (“DCF”) valuation is \$6.78 per share, up from our previous estimate of \$4.06 per share.

DCF Valuation (US\$)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	Terminal
Funds Flow from Operations	\$790,333	\$5,312,116	\$8,860,519	\$14,985,337	\$23,963,695	\$31,920,463	\$39,742,904	
-increase in w/c	\$131,518	-\$395,405	-\$1,432,953	-\$1,248,756	-\$1,445,962	-\$1,626,707	-\$1,626,707	
Cash Flows from Operations	\$921,851	\$4,916,711	\$7,427,566	\$13,736,581	\$22,517,734	\$30,293,756	\$38,116,197	
-capex	-\$118,797	-\$500,000	-\$500,000	-\$500,000	-\$500,000	-\$500,000	-\$500,000	
Free Cash Flows	\$803,054	\$4,416,711	\$6,927,566	\$13,236,581	\$22,017,734	\$29,793,756	\$37,616,197	\$603,050,694
Present Value	\$803,054	\$4,007,905	\$5,704,499	\$9,890,791	\$14,929,533	\$18,332,314	\$21,003,193	\$336,716,389
Discount Rate	10.2%							
Terminal Growth	3%							
Present Value	\$411,387,677							
Cash - Debt	\$1,477,470							
Fair Value	\$412,865,147							
Shares O/S (treasury stock method)	60,935,996							
Value per share (US\$)	\$6.78							

We reiterate our BUY rating and risk rating of 4.

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 regulatory laws.

Appendix

STATEMENTS OF OPERATIONS				
(in US\$) - YE Dec 31st	2014	2015	2016E	2017E
Net Revenues	13,368,905	22,866,787	53,460,000	101,430,000
COGS	11,099,750	19,456,409	45,555,037	86,722,650
Gross Profit	2,269,155	3,410,378	7,904,963	14,707,350
EXPENSES				
General and administrative	1,635,555	2,441,089	4,521,352	6,085,800
Stock based compensation	233,098	4,790,568	22,710,608	3,042,900
Professional fees	276,558	439,763	603,745	664,119
Sales and marketing	76,019	211,456	534,600	1,521,450
EBITDA	47,925	(4,472,498)	(20,465,342)	3,393,081
Amortization	14,493	26,304	55,098	182,039
EBIT	33,432	(4,498,802)	(20,520,440)	3,211,042
Other income	0	23	-	-
Interest expense	-942	-1,127		
EBT	32,490	(4,499,906)	(20,520,440)	3,211,042
Taxes	-71,353	103,069	0	1,123,865
Net Profit (Loss)	103,843	(4,602,975)	(20,520,440)	2,087,177
EPS	0.00	-0.09	-0.40	0.04
Non-controlling interests		21,526	-	-
Net Profit (Loss) to common shareholders	103,843	-4,581,449	-20,520,440	2,087,177
EPS	0.00	-0.09	-0.40	0.04

BALANCE SHEETS				
(in US\$) - YE Dec 31st	2014	2015	2016E	2017E
ASSETS				
CURRENT				
Cash and cash equiv.	353,374	571,814	1,731,546	6,148,257
Restricted cash	141,508	148,613	148,613	148,613
A/R	189,026	341,643	1,550,806	2,942,355
Prepaid	74,673	84,451	186,007	352,912
Total Current Assets	758,581	1,146,521	3,616,972	9,592,137
Fixed assets	79,393	110,195	455,098	773,059
Deferred tax assets	75,196			
Total Assets	913,170	1,256,716	4,072,070	10,365,195
LIABILITIES				
CURRENT				
A/P	79,389	89,984	198,284	377,471
Customer deposits	141,508	148,613	339,135	643,444
Accrued expenses / interest	216,720	425,613	751,976	1,431,529
Notes payable	61,887			
Due to related party				
Total Current Liabilities	499,504	664,210	1,289,395	2,452,444
Notes payable				
SHAREHOLDERS EQUITY				
Share capital	1,824,847	6,612,283	6,612,283	6,612,283
Accumulated deficit / comprehensive loss	-1,411,181	-6,000,201	-3,810,033	1,320,044
Non-controlling interests		-19,576	-19,576	-19,576
Total shareholders' equity (deficiency)	413,666	592,506	2,782,674	7,912,751
Total Liabilities and Shareholders Equity	913,170	1,256,716	4,072,070	10,365,195

STATEMENTS OF CASH FLOWS				
(in US\$) - YE Dec 31st	2014	2015	2016E	2017E
OPERATING ACTIVITIES				
Net profit for the year	103,843	-4,602,975	-20,520,440	2,087,177
Adjusted for items not involving cash:				
Depreciation	14,493	26,304	55,098	182,039
Stock compensation / option expense	233,098	4,790,568	22,710,608	3,042,900
Deferred tax asset	-75,196	75,196		
Funds From Operations	276,238	289,093	2,245,266	5,312,116
Change in working capital				
A/R	-81,186	-152,617	-1,209,163	-1,391,548
Prepaid	-34,880	-9,778	-101,556	-166,905
A/P	23,563	10,595	108,300	179,187
Accrued expenses	78,939	208,893	516,885	983,861
Due to related parties	-18,232			
NET CASH USED IN OPERATING ACTIVITIES	244,442	346,186	1,559,732	4,916,711
INVESTING ACTIVITIES				
PP&E	-49,032	-57,116	-400,000	-500,000
NET CASH USED IN INVESTING ACTIVITIES	-49,032	-57,116	-400,000	-500,000
FINANCING ACTIVITIES				
Equity	59,450	-1,182		
Debt		-61,877		
NET CASH FROM FINANCING ACTIVITIES	59,450	-63,059	0	0
Foreign Exchange / Others	-1,542	-7,571		
INCREASE IN CASH FOR THE YEAR	253,318	218,440	1,159,732	4,416,711
CASH, BEGINNING OF THE YEAR	100,056	353,374	571,814	1,731,546
CASH, END OF THE YEAR	353,374	571,814	1,731,546	6,148,257

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.

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