

# Zacks Small-Cap Research

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## Landstar, Inc. (LDSR-OTC)

### LDSR: ArcMail Expected to Add \$2M in Revenue & Cross-Selling Opportunities

Data443 has signed a two-year exclusive partnership with enterprise information and email archiving solutions provider ArcMail. This is expected to contribute about \$2M in revenue over the next year, supporting management's view that its M&A pipeline will produce an annual revenue run-rate of roughly \$8-\$10M.

### OUTLOOK

Data443's partnership with ArcMail expands the company's product line. Data443 expects to cross-promote the ArcMail products to its overall customer base and VAR network and expects the international opportunity to be robust. ArcMail's focus has been largely on the domestic market, while Data443 is developing an extensive International customer and reseller base.

Current Price (2/13/19) \$0.00  
Valuation \$0.01

### SUMMARY DATA

52-Week High \$0.03  
52-Week Low \$0.00  
One-Year Return (%) -45  
Beta -14.02  
Average Daily Volume (sh) 15,592,757

Shares Outstanding (mil) 4,448  
Market Capitalization (\$mil) \$10  
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<br>(Mar) | Q2<br>(Jun) | Q3<br>(Sep) | Q4<br>(Dec) | Year<br>(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<br>(Mar) | Q2<br>(Jun) | Q3<br>(Sep) | Q4<br>(Dec) | Year<br>(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       | 0.00E       | -0.00E        |
| 2019 | NA          | NA          | NA          | NA          | -0.00E        |

\*2019 revenue and per share represent low end of forecast range  
Disclosures begin on page 11.

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## KEY POINTS

- Technology company Data443 is conducting an aggressive M&A campaign and forging partnerships to complement its internally developed technologies. Earlier this week, the company announced that it had signed a two-year exclusive partnership agreement with ArcMail, which offers enterprise information and email archiving solutions.
- Importantly, Data443 expects the partnership to contribute revenue of about \$2 million over the next year. Management anticipates that its overall M&A pipeline will produce an aggregate annual revenue run-rate of roughly \$8-\$10 million and the ArcMail partnership helps support this view.
- The partnership also expands Data443's product line. The company expects to cross-promote the ArcMail products to its existing customer base and VAR network. In particular, ArcMail's focus has been largely on the domestic market, while Data443 is developing an extensive International customer and reseller base.
- As it deepens its product portfolio, the company continues to announce renewals with existing customers. For instance, last month Data443 announced that ARALOC had renewed its pact with Boston University and in December, the company renewed its agreements with Jane Street Capital LLC, FleetPride and WellStar Health System, while ARALOC renewed its customer contract with Southern States Cooperative.
- In our view, these renewals underscore the ongoing demand for cyber security solutions. According to Data443, in 2019 global businesses are anticipated to spend \$124 billion on information security, with a significant percentage of that earmarked for GDPR compliance solutions.

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## OVERVIEW

Technology company Data443 Risk Mitigation, a wholly owned subsidiary of LandStar, Inc. (OTCPK: LDSR), continues to make acquisitions and forge partnerships in 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.

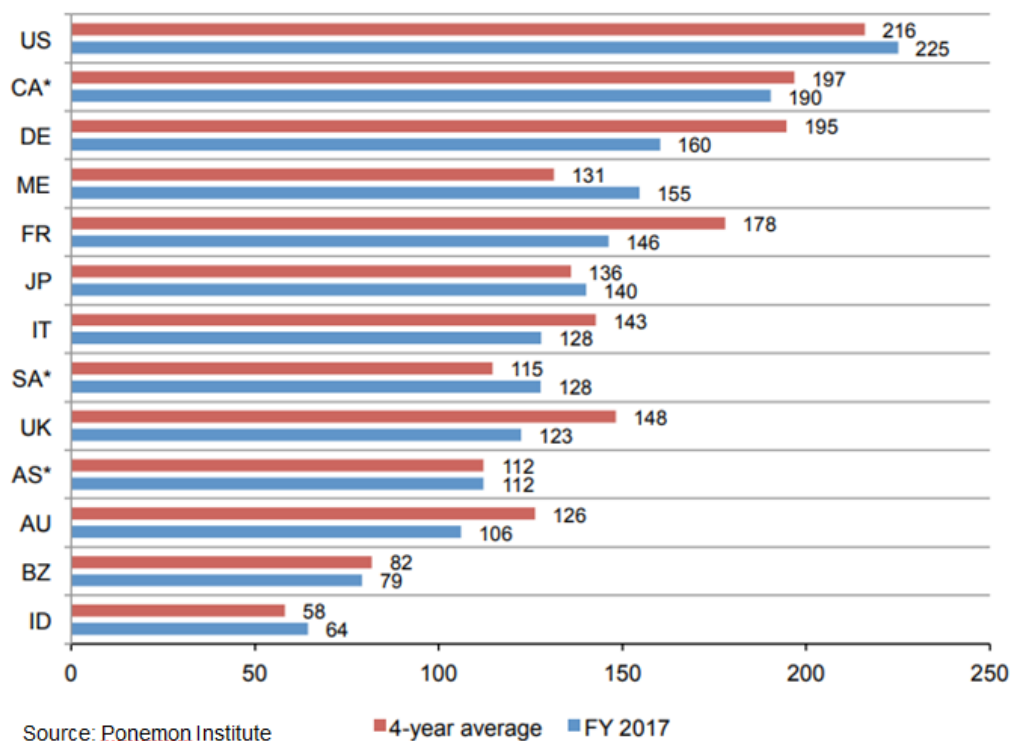
Data443 is conducting an aggressive M&A campaign to complement its internally developed technologies. For instance, Data443 also signed a LOI to purchase N8 Identity, which had trailing 12-month revenues of \$2.6 million and EBIT of roughly \$700,000, for \$3.2 million in cash and restricted stock. N8 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.

## ArcMail: Expected to Add \$2 Million in Revenue and Provide Cross-Promotional Opportunities

Earlier this week, the company announced that it had 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. The per capita cost of data breaches in many offshore companies is significant, as illustrated in the chart below.

**2017 Per Capita Cost of Data Breach - Selected Countries (US\$)**



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.

The ArcMail partnership is consistent with Data443’s goal to provide a broad range of data security offerings, services and solutions. It follows on other significant events in 2018 as the company pursues a roll-up strategy within the cyber-security space. Management expects that its overall M&A pipeline will produce a combined annual revenue run-rate of roughly \$8-\$10 million and the ArcMail partnership – with its approximately \$2 million annual revenue run-rate – helps support this view.

## RENEWALS: DEMAND FOR CYBER-SECURITY SERVICES IS ROBUST

As it deepens its product portfolio, the company continues to announce renewals with existing customers. For instance, last month Data443 announced that ARALOC had renewed its pact with Boston University and in December, the company renewed its agreement with Jane Street Capital LLC, FleetPride and WellStar Health System, while its ARALOC division renewed its customer contract with Southern States Cooperative.

In our view, as well as reflecting satisfaction with the company's products and services, these renewals also underscore the ongoing demand for cyber security solutions. According to Data443, in 2019 global businesses are anticipated to spend \$124 billion on information security, with a significant percentage of that earmarked for GDPR compliance solutions. A recent study conducted by research firm Ponemon Institute notes that 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 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 /<br>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.

Similarly, 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."

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## RECENT NEWS

On January 28, 2019, the company announced the launch of vDPO virtual data protection officer service to enhance data privacy solutions

On January 24, 2019, Data443 announced that ARALOC had renewed Boston University

Data443 completed a partnership agreement with TEKsystems Global Services, LLC on January 14, 2019

Data443 announced the launch of a CCPA compliance solution on January 8, 2019

On January 2, 2019, Data443 announced a partnership with CYNOKS Information Technologies to target the Turkish market

The company renewed its agreement with Jane Street Capital LLC on December 26, 2018

The company's ARALOC division renewed its agreement with Southern States Cooperative on December 24, 2018

Data443 renewed its agreement with FleetPride on December 17, 2018

The company launched a beta of a privacy scanner for Facebook users on December 14, 2018

Data443 renewed its agreement with WellStar Health System on December 13, 2018

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## 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.

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## 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. As indicated above, 61% of the companies that experienced data breaches in 2017 employ fewer than 1,000 people. This 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<br>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

## 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     |

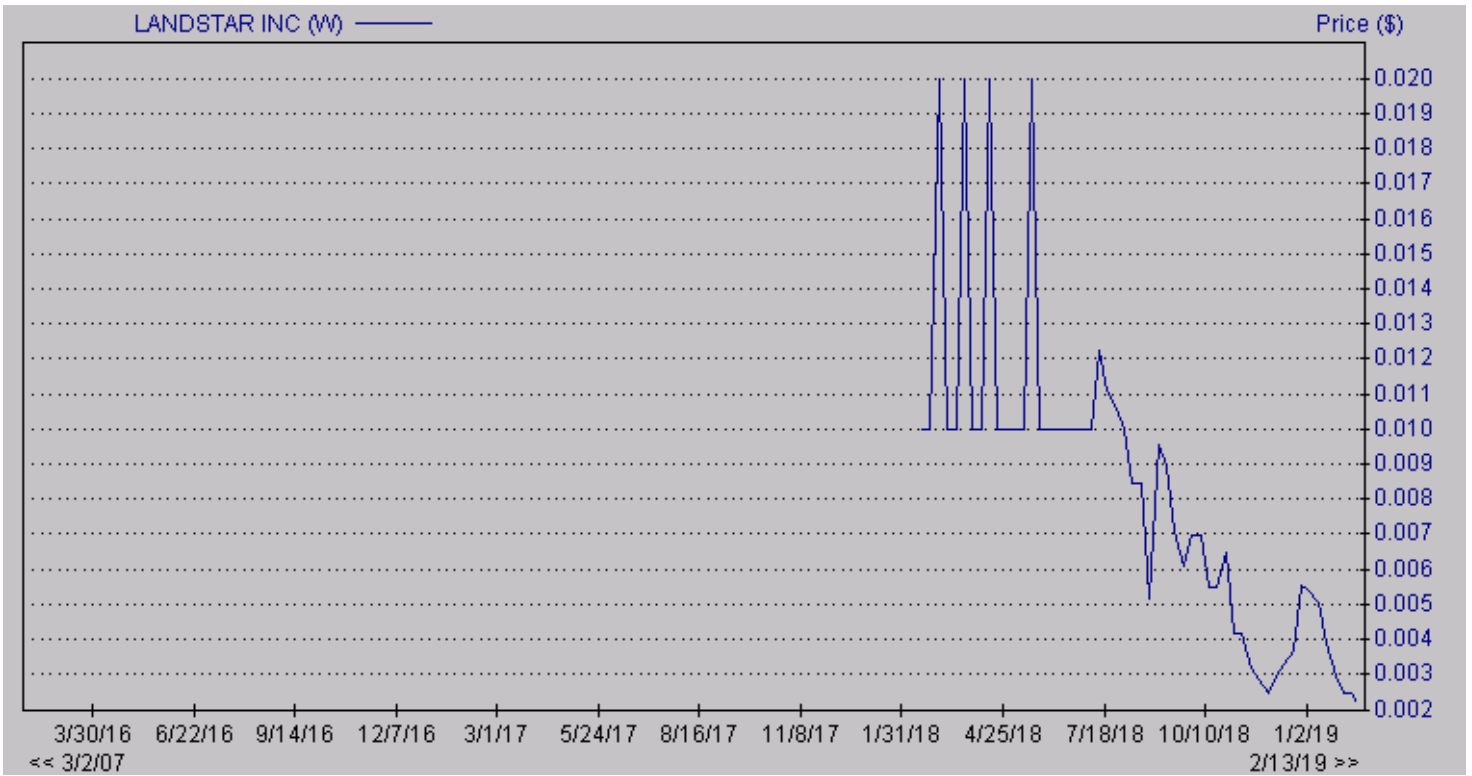
September 2018 is not pro forma for the recent restructuring.  
Source: Company reports

**Data443 Statement of Cash Flow (\$)**

|  | <b>2016</b>  | <b>2017</b>    | <b>Sep-18</b>   |
|--|--------------|----------------|-----------------|
| 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               | <u>6,808</u> | <u>(4,913)</u> | <u>243,878</u>  |
| Cash used in operating activities        | -            | -              | (744,554)       |
| Cash from Myriad Software acquisition    |              |                | 4,478           |
| Deposit on Modevity acquisition          | <u>-</u>     | <u>-</u>       | <u>(50,000)</u> |
| Cash from investments                    | -            | -              | (45,522)        |
| Proceeds from convertible notes issuance |              |                | 829,680         |
| Distributions to shareholders            | <u>-</u>     | <u>-</u>       | <u>(22,049)</u> |
| Cash from financings                     | -            | -              | 807,631         |
| Net change in cash                       | -            | -              | 17,555          |

Source: Company reports

# HISTORICAL STOCK PRICE



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