KeyStone's
Small-Cap Stock Report

Independent Equity Advisors

Editor: Ryan Irvine, BBA (Finance)   Senior Analyst: Aaron Dunn, CFA

Discovery Portfolio	Adcore Inc.
	Price: $0.69
	Symbol: ADCO:TSX-V
	Near Term: ▲ SPEC BUY
	Long Term: ▲ SPEC BUY

Summary

Adcore is a digital advertising technology company providing search engine marketing SaaS solutions and services to scale via automation and machine learning technologies. Using machine learning artificial intelligence (AI) technology, Adcore's cloud-based suite of software-as-a-service (SaaS) products provide digital advertisers with smart algorithm-powered automation tools and reporting and analytics in order to help them improve online advertising effectiveness, maximize their return on advertising investment, and scale-up their digital campaigns. Adcore's customers include enterprise companies, and small- and medium-sized businesses from Asia-Pacific, Europe, the Middle East, and North America.

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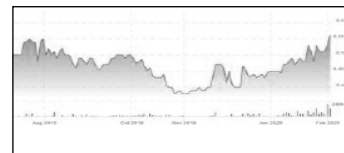**Visit www.keystocks.com for more details.**

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Adcore Inc.
(ADCO:TSX-V)

Current Price (February 5, 2020): $0.69

RECOMMENDATION: SPEC BUY

Shares Outstanding..55,356,253
Fully Diluted Shares Outstanding...56,518,531

SELECTED QUARTERLY DATA ($US)

Income Statement	Q3 2019	Q3 2018
Revenues	$3,027,000	$2,448,000
Net Earnings	$598,000	$514,000
EPS	$0.01	$0.01
Fully Diluted EPS	$0.01	$0.01
Adjusted Net Earnings	$704,000	$739,000
Adjusted EPS	$0.01	$0.02
Adjusted Fully Dilluted EPS	$0.01	$0.02
EBITDA	$1,107,000	$816,000
EBITDA/Share	$0.02	$0.02

BALANCE SHEET	30-Sep-19	31-Dec-18
Current Assets	$5,113,000	$3,170,000
Total Assets	$6,892,000	$4,392,000
Current Liabilities	$1,774,000	$3,296,000
Long-Term Debt	$243,000	$-
Total Liabilities	$2,312,000	$3,477,000
Shareholder's Equity	$4,580,000	$915,000
Net Debt (Cash)	$(2,660,000)	$(1,501,000)
EV	$19,930,887	$21,089,887

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Balance Sheet	31-Dec-18	31-Dec-17
Total Assets	n/a	n/a
Total Liabilities	n/a	n/a
Working Capital	n/a	n/a
Long-Term Debt	n/a	n/a
Book Value	n/a	n/a
ROE	n/a	n/a

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Adcore offers three SaaS solutions. SEMDOC2 provides advertisers a powerful account auditing solution, utilizing both machine learning and smart algorithms to formulate 52 key insights and metrics on the account and campaign level. SEMDOC2's powerful visual dashboard gives advertisers a clean and simple user interface to pin-point exact areas of weakness and missed opportunities – guiding them to superior results. Adcore VIEWS is a search automation solution which provides advertisers with a powerful algorithm bid management feature, which utilizes both machine learning and historical data which optimize and manage advertisers' campaigns in the most efficient manner, ensuring their targets are met as effectively as possible. Adcore VIEWS also gives its users the ability to create and automate their own rule based campaign management machine, which runs according to each users specified needs. FEEDITOR offers advertisers online shopping automation capabilities. From its ability to automate over one million campaigns to its inventory plug-in, FEEDITOR ensures that advertisers' ads are always up-to-date and in sync with their inventory. FEEDITOR uses machine learning algorithms to ensure that ads are seen at the right place, at the right time, for the right amount of money. Altogether, the Adcore Technology suite combines the industry's leading automation and machine-learning – in order to ensure that advertisers reach the highest return on investment and scale in the most effective manner.

EXPANDED OPERATIONAL ENVIRONMENT, PRODUCT & SERVICE DESCRIPTION

Within the current general advertising market, small to medium advertisers often lack access to the extensive

RATINGS

VALUE (TRAILING)

EPS	n/a
Adjusted EPS	$0.06
P/E	n/a
Adjusted P/E	8.84
PEG Ratio	n/a
Adjusted PEG Ratio	0.22
P/S	3.27
P/EBITDA	9.01
EV/EBITDA	9.48
BV/Share	0.08

GROWTH

Revenues	32%
FCF	-75%
EPS	n/a
Adjusted EPS	41%

RISK/LIQUIDITY

D/E	0.05
Current Ratio	2.88

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resources and sophisticated technologies used by larger competitors in Ad Tech, putting them at a competitive disadvantage. Adcore seeks to empower and develop this important and growing segment of advertisers by making available to them its suite of sophisticated technologies.

Adcore's technology developers use machine learning, the branch of AI involving systems that learn from data. Large volumes of data are gathered, and Adcore's proprietary learning algorithms are designed to generalize from that data to other cases of interest. Rapidly shifting data combined with a large volume of data requires training algorithms which are the foundation of Adcore's search engine marketing platform.

Adcore is an Ad Tech provider offering a cloud-based suite of SaaS products which enables advertisers and agencies to improve financial performance, realize efficiencies and time savings, and make better business decisions.

The Market

Digital advertising is a large and growing industry, which generated an estimated US$283.35 billion in media ad spending in 2018 and is expected to grow to $335B in 2020. Google, Facebook, Amazon, and other large internet companies have capitalized on the value of their highly trafficked sites by selling space to advertise goods and services, and have developed elaborate platforms and programs to sell advertising space. A market has emerged for software tools to help advertisers run online advertising campaigns on these sites, optimize advertising spending, and improve the results of their campaigns.

Ad Tech is an umbrella term for the software and tools that help agencies and brands target, deliver, and analyze their digital advertising efforts. In other words, Ad Tech refers to those applications that help marketers utilize the mounds of available targeting data to manage and optimize their online ad campaigns, resulting in better use of their budgets. The Ad Tech space refers to everything from tools to help analyze campaign results to sophisticated systems offering ad bidding automation and machine learning.

Adcore has targeted three key digital advertising market segments with its products and technologies: search engine marketing, social media marketing, and shopping.

Search
The search market segment refers to ads displayed on search result pages. In 2017, search represented approximately 43% of the digital advertising market. The search segment is dominated by Google, with other search platforms occupying smaller positions.

Google AdWords is one of the earliest PPC advertising platforms and was the first to implement the less-biased "sponsored" results paradigm, incorporating the Quality Score metric to avoid a price only evaluation basis. It has progressed rapidly over the years, continually adding and changing features and functionality to improve user (advertiser) experience. These include features such as programmatic advertising and the introduction of feeds, automated bidding and, more recently, AI sup-

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ROE	n/a	n/a

ported automated bidding which makes suggestions for optimizing ad campaigns run on AdWords, and organic support for mobile advertising, including "in-app" advertising.

While these advances have been helpful, they have also increased the complexity of using AdWords and the scope of work required to run successful campaigns, putting small and medium advertisers at a disadvantage (by reducing the real return on investment realized by these advertisers). This has increased the demand for online marketing agency services and better Ad Tech applications.

To illustrate the issue (and the value of online agencies and Ad Tech), consider, for example, Google's Quality Score. Indeed, the Quality Score makes for greater equality in the bidding process by choosing winners, not only by the price they are willing to pay, but also based on "qualitative" measures, such as an ad's expected click- through rate, keyword relevance and the relevance of the ad and landing page content. This has created a need for businesses to constantly monitor that these "other" parameters meet the requirements of the Quality Score and to keep Google informed (through a feed) of any changes, preferably as soon as they are made.

Social Media

The social media market segment refers to social media advertising, or social media targeting, are advertisements served to users on social media platforms. In 2017, social media represented approximately 20% of the digital advertising market, and this continues to grow. Social networks utilize user information to serve highly relevant advertisements based on interactions within a specific platform. In many instances, when a target market aligns with the user demographics of a social platform, social advertising can provide huge increases in conversions and sales with lower cost of acquisition. When used properly, it offers hyper-targeting capabilities that are hard to find elsewhere. Examples of social media advertising on Facebook include promoting pages, discount ads and boosting posts.

Shopping

Shopping advertising refers to more structured PPC advertising geared towards the sale of products or other inventory (such as flight tickets) on shopping sites such as Amazon or search engines such as Google. In 2017, shopping represented approximately 9% of the digital advertising market.

Shopping ads typically allow much more limited text copy, but, on the other hand, let users add images, prices, discounts and other detailed, but pre-specified information. Owing to the volume of products any single business, even a small business, may offer, feeds become substantially more important in the case of shopping advertising, as a means for conveying ongoing inventory changes to ad channels, who propagate those changes to the ads themselves.

Cycles and Seasonality

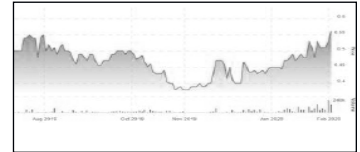Adcore's revenues depend on discretionary advertising spending by businesses and advertising agencies. Such advertising spending is typically subject to seasonal variation based on industry segment. For example, advertising spending in the retail sector may be concentrated in the fourth quarter in advance of the holiday shopping season, while advertising spending in the travel sector may be concentrated in

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Book Value	n/a	n/a
ROE	n/a	n/a

the second and third quarter during the northern hemisphere summer. The company's clients serve customers in diverse industries, offsetting in part the effect of seasonal or cyclical variations in advertising spending over any particular industry. We would expect Q4 to the strongest, followed by Q3, Q2, and Q1 being seasonally the weakest.

Products

Adcore's three products, Feeditor, Adcore VIEWS and SEMDOC2, provide advertisers with smart algorithm-powered automation tools designed to help digital advertisers maximize return on advertising investments, and easily scale their digital campaigns.

Feeditor, released in 2015, provides advanced shopping automation capabilities to advertisers. Feeditor is able to automate over one million campaigns and has an inventory plug-in that allows advertisers to track their ads to keep them up-to-date and in sync with their inventory. Feeditor incorporates machine-learning algorithms to ensure that advertiser's ads are seen at the right place and time, at a competitive price.

Adcore VIEWS, released in 2017, focuses on search automation, which provides advertisers with a powerful algorithm bid management feature, using both machine learning and historical data to optimize and manage advertisers' campaigns in the most efficient manner to ensure targets are met as effectively as possible. Adcore VIEWS also gives its users the ability to create and automate their own rule-based campaign management machine, which runs according to each users specified needs.

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COMPETITIVE CONDITIONS

The digital advertising industry is highly competitive and fragmented. Adcore competes globally with large, well-established multi-national companies, digital advertising networks, divisions of certain advertising agencies, including agency trading desks that place digital advertising buys on behalf of the agencies' clients, and other companies, some of which also use proprietary technology to optimize advertising campaigns. As Adcore's solutions are expanded and developed, or as other companies introduce new products and services or enter the marketplace, the company may become subject to additional competition.
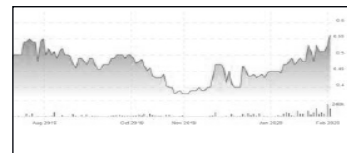
Adcore competes in three broad segments of the Ad Tech market: enterprise solutions, performance agencies, and Ad Tech channel partners.

Enterprise Solutions
Companies in the enterprise solutions segment offer large-scale applications de-

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signed for large enterprises. They typically offer a variety of features, including advanced functionality such as cross-channel integration, support for data from various organizational systems (e.g. CRM) and advanced AI capabilities. This segment is distinguished by the high price point of solutions, putting these solutions beyond the reach of most small- to medium-sized businesses and agencies.

Adcore's key competitors in this segment are Kenshoo (private) and Marin Software (MRIN:NASDAQ), an unprofitable public company.

Performance Agencies
Performance agencies are generally large, well-known agencies that are paid per result achieved—for example, upon completion of a specific action such as a sale, generation of a lead, or when an ad is clicked. Performance agencies usually employ sophisticated and sometimes proprietary Ad Tech in their operations. While performance agencies' service offerings do not directly compete with Adcore's self-service software applications, they compete with the company for share of the overall digital advertising market by providing alternative services.

Key competitors in this segment are iProspect (private) and Performics (private).

Ad Tech Channel Partners
The Ad Tech channel partner market segment includes companies that offer narrowly-defined Ad Tech solutions, such as applications that only provide account auditing, reporting, or systems that focus on optimizing campaigns. These service offerings are generally narrower than the company service offerings.

Key competitor in this segment is Clickable (private).
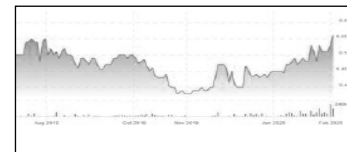
Competitive Position
Adcore competes to attract, engage, and retain users globally for its current and future products. The company competes based on the utility, ease of use, performance, quality, and cost of its product offerings. While limited information is publicly available regarding these factors, a precise comparison of relative competitive position is difficult. However, management believes that the company enjoys the following strengths that differentiate it from its competitors:

- *Features and functionality*– Adcore's holistic SaaS solution that incorporates AI and machine learning, which offers a wide range of features in a high-quality, user-friendly product. To the company's knowledge, there is no single direct competitor that offers a similar range of services.
- *Customizability and scalability*– Adcore's solutions are customizable and scalable, and can be bundled to optimize results based on a customer's unique profile. This enables the company to reach a wide range of marketing professionals and digital advertising agencies at competitive prices, including small- and medium-sized business, and to rapidly adjust its services to match their requirements.
- *Strength of management and employee team*- Adcore has served the digital advertising market since its infancy. The management team, headed by Omri Brill, has led the company since its inception, and is experienced in the Ad Tech industry.
- *Stage of development and diversification*– Adcore's business is established, di-

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versified and profitable. As a result, it is well positioned to adapt to changing market conditions and take advantage of new market opportunities, as compared with newer entrants that may not have achieved profitability, or providers of less-diverse service offerings.

- *Industry partnerships*– the company has established relationships with leading search engines and social media platforms, providing a significant competitive advantage compared with competitors who have yet to reach similar levels of development.

RISKS

Foreign Operations
Adcore is headquartered in Tel Aviv, Israel, and has satellite offices in Melbourne, Australia, Winnipeg, Canada and as of July 15th, in Toronto, Canada. In addition, the company maintains servers at facilities in Canada and Israel that store data and deliver advertising campaigns for its customers. Adcore is substantially dependent on its operations in Israel which is a geographically riskier jurisdiction historically in the public markets than a North American-based operation.

Rapid Technological Change
The industry in which the company operates is characterized by rapid technological change, frequent new product and service introductions and enhancements, uncertain product life cycles, changes in customer requirements, and evolving industry standards. The introduction of new products and new technologies, the emergence of new industry standards, or improvements to existing technologies could render Adcore's platform obsolete or relatively less competitive.

Concentration in Search & Shopping Advertising
Adcore's customers have historically used its Adcore VIEWS platform for search and shopping advertising, and a significant amount of the company's revenue is derived from users of the platform. Moreover, with Google representing over 92% of worldwide search engine market share, a significant amount of the company's revenue depends in fact on Google and its performance as a search engine. The company expects that the online advertising channels it supports will continue to be a primary channel used by its customers. Should customers lose confidence in the value or effectiveness of these channels, the demand for Adcore VIEWS may decline. While revenues from social and video advertising have grown rapidly, if the company fails to gain market traction for Adcore VIEWS for social and video advertising would harm its growth prospects, operating results and financial condition.
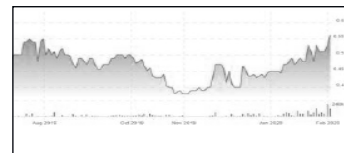
Customer Concentration
A significant amount of the Adcore's revenue is derived from three major customers, which respectively provided 31%, 25%, and 13% of its total revenues during the financial year ended December 31, 2018. The company expects that the working relationship with these three customers will continue to be profitable to all parties. Should any of these three customers lose confidence in the value or effectiveness of Adcore's technology or services, this working relationship could end and the company's revenue would significantly decline.

Adcore Inc.
(ADCO:TSX-V)

Current Price (February 5, 2020): $0.69

RECOMMENDATION: SPEC BUY

Shares Outstanding...*55,356,253*
Fully Diluted Shares Outstanding..*56,518,531*

SELECTED QUARTERLY DATA ($US)

Income Statement	Q3 2019	Q3 2018
Revenues	$3,027,000	$2,448,000
Net Earnings	$598,000	$514,000
EPS	$0.01	$0.01
Fully Diluted EPS	$0.01	$0.01
Adjusted Net Earnings	$704,000	$739,000
Adjusted EPS	$0.01	$0.02
Adjusted Fully Dilluted EPS	$0.01	$0.02
EBITDA	$1,107,000	$816,000
EBITDA/Share	$0.02	$0.02

BALANCE SHEET	30-Sep-19	31-Dec-18
Current Assets	$5,113,000	$3,170,000
Total Assets	$6,892,000	$4,392,000
Current Liabilities	$1,774,000	$3,296,000
Long-Term Debt	$243,000	$-
Total Liabilities	$2,312,000	$3,477,000
Shareholder's Equity	$4,580,000	$915,000
Net Debt (Cash)	$(2,660,000)	$(1,501,000)
EV	$19,930,887	$21,089,887

SELECTED ANNUAL DATA ($US)

Income Statement	2018	2017
Revenues	$8,570,000	$10,076,000
Net Earnings	$1,680,000	$1,022,000
EPS	$0.04	$0.03
Fully Dilluted EPS	$0.04	$0.03
Adjusted Earnings	$2,278,000	$1,209,000
Adjusted EPS	$0.06	$0.03
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Balance Sheet	31-Dec-18	31-Dec-17
Total Assets	n/a	n/a
Total Liabilities	n/a	n/a
Working Capital	n/a	n/a
Long-Term Debt	n/a	n/a
Book Value	n/a	n/a
ROE	n/a	n/a

Recent History as Public Entity

On May 29, 2019, the company began trading on the TSX-V under the new name "Adcore Inc." with the trading symbol: ADCO. As a result as a publicly filing entity, the history is short which increases the risk.

2019 QUICK ANNOUNCEMENTS

On July 9, 2019, Adcore Inc. announced up to $5 million ad management spend contract with Australia and New Zealand's largest experiential travel site, Experience Oz.

On July 25, 2019, Adcore Inc. announced the official launch of its Toronto office including its sales and investor relations teams, to be located in downtown Toronto, Canada. The facilities and staff are fully operating and will continue to grow in-line with Adcore's strategic plan for aggressive expansion in North America.
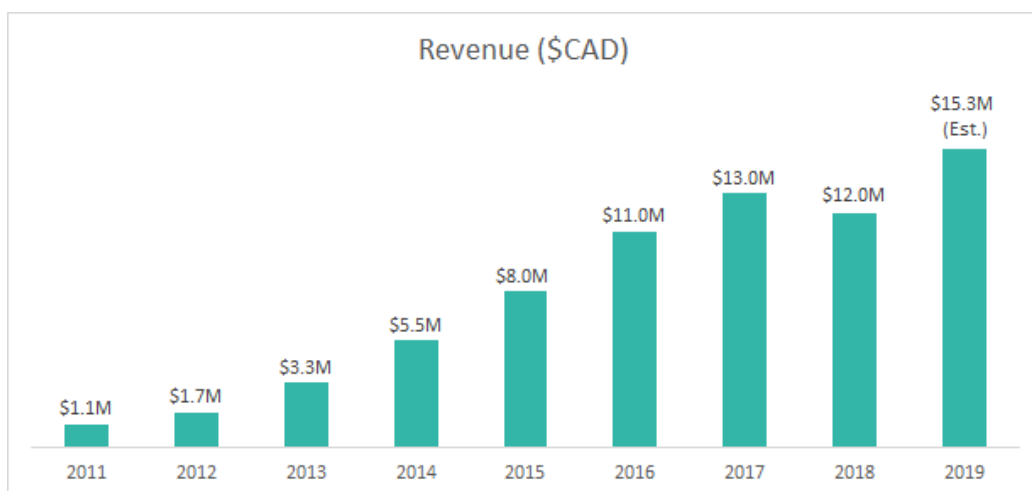
On August 13, 2019, Adcore announced the renewal of CAD$125 million contract with the Israeli Government Advertising Agency (IGAA) to manage its online advertising spend over 5 years – roughly $25 million ad management spend annually.

On September 2, 2019, Adcore Inc. announced the appointment of Mr. Yatir Sadot as the new Chief Financial Officer of the corporation.

On September 23, 2019, Adcore Inc. announced that it has obtained official Channel Status in the Microsoft Ads Partner Program.
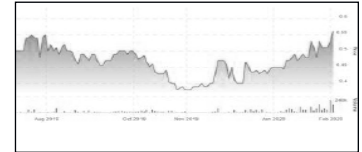
FINANCIAL PERFORMANCE

While not showing explosive growth, Adcore's revenue growth has been relatively consistent over the 8 years and we expect a step up in 2019 growth to the range of US$15.3 million, which would mark a 27.5% increase over a weaker 2018.

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Book Value	n/a	n/a
ROE	n/a	n/a

Revenue Model

Adcore earns a percentage of the total advertising spend managed across the company's ADCORE Platform. The percentages vary depending largely on whether the client is a Direct or Indirect client.

Beginning in 2018, Adcore adopted a new strategy aimed at optimizing the company's revenue streams by focusing more on indirect agency customers with higher profit margins and lower overhead, rather than on direct advertiser customers which yield higher revenue on one hand but are with lower profit margins on the other hand, due to the high cost of revenues and overhead related to these customers' activity.

For the three and nine months ended September 30, 2019, the Direct advertiser customer's revenue stream amounted to $1.6 million and $4.0 million respectively, compared to $1.4 million and $3.6 million for the three and nine months ended September 30, 2018.

On the flipside, for the three and nine months ended September 30, 2019, the Indirect agency customers revenue stream amounted to $1.4 million and $4.1 million respectively, compared to $1.1 and $2.6 million for the three and nine months ended September 30, 2018.

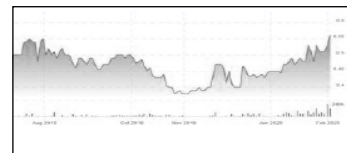|	9 Months Period Ended September 30, 2019	3 Months Period Ended September 30, 2019	9 Months Period Ended September 30, 2018	3 Months Period Ended September 30, 2018
	Unaudited			
Direct	4,020	1,609	3,572	1,407
Indirect	4,121	1,418	2,594	1,041
Total	8,141	3,027	6,166	2,448

Adcore's decision to increase its focus on acquisition efforts of indirect agency customers with higher profit margins and lower overhead and lower cost of revenues proved to be very successful, with revenues for the three and nine months ended September 30, 2019, growing by 24% and 32%, respectively, compared to revenues for the three and nine months ended September 30, 2018.

In terms of EBITDA, over the first 9-months of 2019 Adcore appears to be benefit-

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Book Value	n/a	n/a
ROE	n/a	n/a

ing from its focus on indirect agency customers. Adjusted EBITDA jumped roughly 100% in 2018, despite lower revenues than 2017 and we expect adjusted EBITDA to grow another 37.5% in 2019, this time with strong revenue growth as well as the model gains further traction.

EBITDA ($CAD)
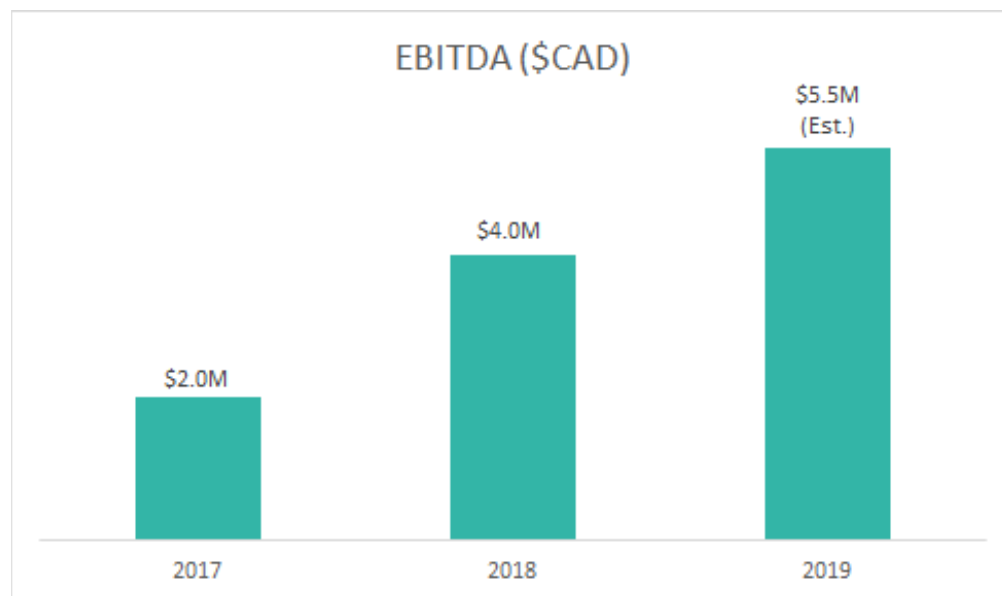
Summary of Previous Eight Quarterly Results (in thousands of US$):

	Sept 30, 2019	Jun 30, 2019	Mar 31, 2019	Sept 30, 2018	Jun 30, 2018	Mar 31, 2018
Total Revenues	3,027	2,684	2,430	2,448	1,813	1,905
Gross Profit	1,938	1,560	1,558	1,376	1,006	852
Total Comprehensive Income	598	(973)	703	514	175	183

The increase in revenue for the three and nine months ended September 30, 2019, compared to the same period of the prior year, was driven primarily by Adcore's increased business activity, that originated both from growth of its existing clients' activity and from its continued development of its acquisition efforts of indirect agency customers.
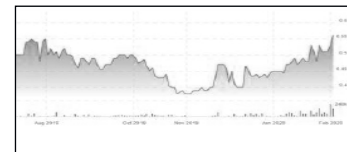
For the three and nine months ended September 30, 2019, gross profit amounted was $1.94 million (64% of revenues) and $5.06 million (62% of revenues) respectively, compared to $1.38 million (56% of revenues) and $3.24 million (52% of revenues) for the three and nine months ended September 30, 2018, representing an increase of 41% and 56%.

Adjusted EBITDA for the three and nine months ended September 30, 2019, was $1.11 million and $2.94 million respectively, compared to $816,000 and $1.84 mil-

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Book Value	n/a	n/a
ROE	n/a	n/a

lion, representing an increase of 35% and 60%.

KEY AREAS OF GROWTH

Expand Into Social

Adcore already operates in the largest market segment - search advertising. The company plans to further develop its technologies to penetrate both social and shopping advertising. Zenith, a media agency owned by Publicis Media, estimates global social media ad spend grew 20% in 2019, reaching US$84 billion. According to Zenith's data, social media advertising will account for 13% of total global ad spend and rank as the third-largest advertising channel, behind TV and paid search.

2019 will be the first year that social media ad spend outperforms print ad spend, with newspaper and magazine ads generating less than $69 billion this year. SMBs (Adcore's target market) and digital brands are driving social ad growth. Zenith attributes the growth across social media ad channels to SMBs shifting and adding budgets in order to take advantage of the targeting and localization capabilities offered by platforms like Facebook.
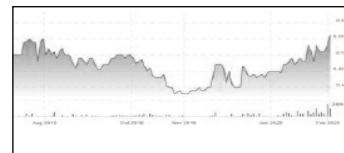
Geographic Expansion

Adcore has begun to execute on its worldwide expansion in 2019 by opening a new location in the west (Toronto) and in the east (Hong Kong (HK)). The HK office will provide a new growth opportunity for the company to penetrate the growing Chinese market. In 2019, digital ad spending is estimated to have grown 22.0% to $79.82 billion, which is 69.5% of total media ad spending. Digital ad spending is predicted to continue to increase at a strong rate growing to $134 billion by 2023.

Digital Ad Spending in China, 2018-2023

billions, % change and % of total media ad spending
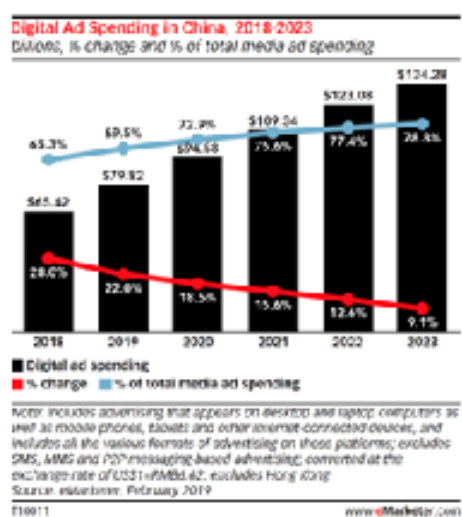
Increase & Extend Partnerships

The more strategic agreements Adcore solidifies with other channels like Bing, FB and Amazon, the more cost advantages will be obtained due to the scale of the operation. This will directly lead to a network effect, solidifying Adcore as an indus-

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Book Value	n/a	n/a
ROE	n/a	n/a

try leader. To this end, on September 23, 2019, Adcore announced that Microsoft named the company as one of its select group of top-performing partners which act as trusted technology solution providers to Microsoft Advertising's search advertiser's customer base.

Accretive Mergers & Acquisitions (M&A)

Adcore is positioned to utilized generated cash and cash on hand as well as it public listing (potentially issuing shares – at higher prices we recommend) to acquire established digital agencies with strong client accounts. Adcore would then be able to layer in its tech platform to these digital agencies, drive revenues and increase margins substantially. Adcore would also be positioned to acquire attractive tech IP and launch directly into its existing client base.

Recent Contracts/Extensions

On August 13, 2019, Adcore announced that the Israeli Government Advertising Agency (IGAA), on behalf of the Israel Ministry of Tourism, renewed its contract for another year. Currently in its second year, the original five-year contract calls for Adcore to manage, jointly with Maple Team Ltd., a budget of CAD$25 million in online advertising spend per year and is renewable annually without requirement of further government tendering. Since implementation of the contract, tourism in Israel has increased 14% from 2017 to 2018 to a record 4.4 million visitor arrivals. The contract renewal appears to be a significant vote of confidence in Adcore's technologies and services.

On July 9, 2019, Adcore announced that it had secured a contract for all digital media across search, display and social from Australia and New Zealand's number one site for travel experiences, Experience Oz. The contract to manage Experience Oz's online advertising has a budget of up to CAD$5 million (a spend utilizing Adcore's AdTech Platform) per year and is renewable annually. Winning the Experience Oz account comes on the back of several other recent wins in Adcore's Australian office, including the Klika Group and Australian Geographic who join other long-term tier one advertising clients including The Fork (formerly Dimmi), Get Price and Bookwell.

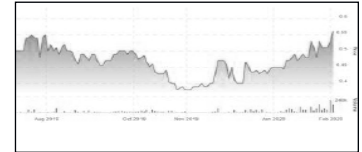### Record Ad Spend For Direct Advertisers Managed During November 2019 - 58% Growth

On December 11, 2019, Adcore announced a record of ad spend managed for the month of November 2019, generated from Adcore's direct advertisers in all of the major territories where Adcore operates in, including North America, Europe and Australia. During the month of November 2019, which marks the beginning of the holiday season, direct advertisers and retail clients using the Adcore platform increased their year-over-year ad spend by 58%. Adcore expects that these impressive results will lead to a record 2019 fourth quarter.

According to Adobe Analytics, a record US $9.4 billion was spent online by the end of Cyber Monday 2019, an increase of 19.7% compared to 2018. Adcore's 58% increase in digital ad spend is x3 larger than the reported growth for the entire industry. This growth in digital ad spend is supported by two underlying trends: the shift of marketing budgets from traditional offline advertising to online advertising and the growing importance of large sales events for the retail sector. Adcore appears to

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Book Value	n/a	n/a
ROE	n/a	n/a

be strategically positioned in the center of these two major trends and has the ability to capitalize on both if management continues to execute.

VALUATIONS

We estimate Adcore could post revenues of CAD$15.3 million and adjusted EBITDA in the range of CAD$5.5 million or CAD$0.10 per share. We estimate that Adcore is also positioned to report adjusted earnings of just over CAD$0.06 per share in 2019. If we value Adcore based on a blended average of 8 times EV/EBITDA the company's fair value based on 2019 expected adjusted EBITDA and 15 times adjusted earnings, our fair value is in the range of $0.95. For KeyStone to increase this fair value following the 2019 year-end results, we need to get a better sense of the company's growth targets for 2020. If we see a clear path to growth in 2020 on a per share earnings and EBITDA basis, then the company offers good speculative value. We will adjust our fair value following the release of the company's Q4 and 2019 year-end results and outlook for 2020. There is the potential for further cost increases as the business expands but if the Indirect Client base continues to increase, it should offset increased expenses elsewhere allowing solid growth.

CONCLUSION

With a young history as a public entity, applying valuations metrics with a high level of certainty is a more difficult exercise and one with a higher degree of risk. That said, Adcore appears to possess a solid track record of revenue growth with a renewed focus on increased profit margins in the past 3 years. The team has bootstrapped from humble beginnings to strong growth over the past 9 years and with strong insider ownership should continue to grow the business with a focus on profitable growth – a key to long-term share appreciation.

While their remains plenty of growth in AdTech, the market is highly competitive and fluid. Adcore competes globally with large, well-established multi-national companies, digital advertising networks, divisions of certain advertising agencies, including agency trading desks that place digital advertising buys on behalf of the agencies' clients, and other companies, some of which also use proprietary technology to optimize advertising campaigns. Management will have to continue to stay ahead of the curve in terms of technology, but also produce solid profitability on a per share basis for its share price to perform well over the long term. It can be a difficult tight-rope to walk.
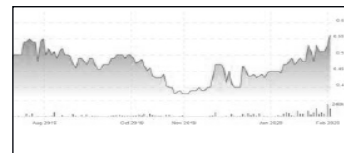
The market is also fragmented and the opportunity for consolidation exists. We expect management to use cash on hand and/or future financings to grow operations geographically and from a technology basis. We do caution the company to be very mindful of shareholder dilution. Given the fact insiders own over 70% of the shares outstanding (the founder and CEO with the largest percentage), we would expect management to act in shareholders' best interest and grow profitably– looking to make acquisitions that are accretive to cash flow on a per share basis. However, with a short history as a public entity, there is a limited track record. We will continue to monitor Adcore in this regard.

From a valuation perspective, we estimate Adcore could post revenues of CAD$15.3

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Long-Term Debt	$243,000	$-
Total Liabilities	$2,312,000	$3,477,000
Shareholder's Equity	$4,580,000	$915,000
Net Debt (Cash)	$(2,660,000)	$(1,501,000)
EV	$19,930,887	$21,089,887

SELECTED ANNUAL DATA ($US)

Income Statement	2018	2017
Revenues	$8,570,000	$10,076,000
Net Earnings	$1,680,000	$1,022,000
EPS	$0.04	$0.03
Fully Dilluted EPS	$0.04	$0.03
Adjusted Earnings	$2,278,000	$1,209,000
Adjusted EPS	$0.06	$0.03
Adjusted Fully Dilluted EPS	$0.06	$0.03

Balance Sheet	31-Dec-18	31-Dec-17
Total Assets	n/a	n/a
Total Liabilities	n/a	n/a
Working Capital	n/a	n/a
Long-Term Debt	n/a	n/a
Book Value	n/a	n/a
ROE	n/a	n/a

million and adjusted EBITDA in the range of CAD$5.5 million or CAD$0.10 per share. We estimate adjusted earnings of just over CAD$0.06 per share in 2019. Our fair value for Adcore based on a blended average of 8 times EV/EBITDA, the company's fair value based on 2019 expected adjusted EBITDA and 15 times adjusted earnings, is in the range of $0.95. There is the potential for further cost increases as the business expands but if the Indirect Client base continues to increase, it should offset increased expenses elsewhere allowing solid growth. We will monitor margins as the company continues to evolve as a new public entity.

We caution that Adcore holds an above average level of geographic risk and its short history as a public entity also increases the risk. If management continues along the profitable growth path it has displayed over the last 3 years, the company appears to offer value. **We also caution that Adcore remains a relatively small company and is considered a micro-cap stock in our coverage. The stock trades in relatively low volumes. While share volume has been picking up, we expect greater than average volatility given the fact its average volume over the past 3 months is in the range of 25,000 shares per day. We are initiating coverage on Adcore with a SPEC BUY rating in our Canadian Small-Cap Discovery Portfolio. We advise clients to be patient when buying the stock and place limit orders in the $0.65-$0.80 range.**

2008a; 2009e
The term (a) refers to the actually results that a company has posted on its financial statements. The term (e) refers to analyst estimates of future results.

Book value (BV)
The total value of a company's assets, on its Balance Sheet, less any liabilities. Also referred to as Shareholder Equity. (The value of a companies assets, on its Balance Sheet, does not necessarily reflect the true value of assets).

Cash Flow from Operations (CFO; Operating Cash Flow)
The cash inflow that a company recieves during a period, resulting from operating activities (does not include Cash Flow from Investing or Financing).

Current ratio
One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations (the ratio should be greater than 1).

D/E: Debt-to-equity ratio
A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets (a lower ratio indicates lower relative debt ratios).

EBITDA
Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EPS: Earnings per share
A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

Fair Value
The price at which an analyst believes a companies stock should be priced. Although this value is based on intelligent analysis, it in no way is a representation of what the companies share price will be trading at given any period of time. The analysis used to determine Fair Value is based on numerous assumptions and uncertainties. Fair Value should be used only as a general guide to investing and should not be depended upon.

FCFE: Free cash flow to equity
Cash flow from operations less working capital requirements, sustaining capital expenditures and scheduled debt repayments. FCFE consists of cash inflows that are available to the shareholders of the company.

Net working capital surplus (deficiency)
A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets (as positive figure is a surplus, whereas a negative figure is a deficiency).

P/B: Price-to-book ratio
Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

P/CF: Price-to-cash flow ratio
Calculated as a company's current share price divided by its cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

P/S: Price-to-sales ratio
It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

ROE: Return on equity
A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

Tangible Book Value (TBV)
The total value of a company's assets, on its Balance Sheet, less any liabilities and intangible assets such as goodwill. Also referred to as Shareholder Equity. (Also true asset values likely differ from Balance Sheet Values, Tangible Book Value is generally considered a more accurate representation of value).

Times Interest Earned
The multiple of Net Income (before interest and taxes) to interest payments during the period. This assesses a companies ability and margin of safety, with respect to meeting its interest obligations (a higher number is more attractive).

Yield
The investment return resulting from income distributions. Calculated as the annual or annualized interest or dividend distribution, divided by the cost of the original investment.