

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

May 30, 2019

Kidoz Inc. (TSXV: KIDZ) – Q1-2019 Revenues Up 18x QoQ Post-Acquisition

Sector/Industry: Mobile Games

www.kidoz.net

Market Data (as of May 30, 2019)

Current Price	C\$0.58
Fair Value	C\$1.00
Rating*	BUY
Risk*	4
52 Week Range	C\$0.30 – C\$0.61
Shares O/S	131,124,989
Market Cap	C\$76.05 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	-3.3%
YoY TSXV	-20.9%

*see back of report for rating and risk definitions

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



Highlights

- Shoal Games changed its name to Kidoz Inc. upon completing the acquisition of Kidoz Ltd. (an Israel based company operating a kids' content and ad tech business) in an all-share deal valued at \$21 million in March 2019. The company also completed a \$2 million private placement (\$0.40 per share) in March.
- As a result of the acquisition, the company's revenues increased from \$17k in Q4-2018, to \$306k in Q1-2019. Q1-2019, which only included a month of Kidoz' revenues, indicates a potential for annualized revenues of \$3.6 million, assuming no seasonality in revenues, and that March revenues are a reasonable indicator of annual revenues. In our previous report, we had made a very preliminary and speculative estimate of \$5 million revenues in 2019 from Kidoz.
- EBITDA in Q1-2019 was -\$0.61 million versus -\$0.65 million in Q1-2018.
- The company maintains a healthy balance sheet, with \$1.83 million in cash, \$2.24 million in working capital, and no debt, at the end of Q1.
- All the 3.42 million options outstanding are in the money, implying the company can raise up to C\$1.54 million if exercised.

Key Financial Data (FYE - Dec 31)

(US\$)	2015	2016	2017	2018	2019E	2020E
Cash	570,086	60,190	478,397	641,536	1,414,264	1,014,747
Working Capital	454,447	13,896	345,184	662,573	1,353,200	1,069,779
Total Assets	1,129,526	129,093	557,853	769,633	21,664,342	21,504,007
LT Debt to Capital	0.0%	928.0%	125.9%	0.0%	0.0%	0.0%
Revenues	111,610	278,921	93,475	106,978	3,399,500	6,215,250
Net Income	(2,965,682)	(3,156,302)	(1,741,951)	(2,592,831)	(1,032,326)	(267,322)
EPS	-0.05	-0.05	-0.03	-0.04	-0.01	0.00

**Completes
Kidoz'
Acquisition**

Israel-based Kidoz Ltd.'s acquisition, which was completed on March 4, 2019, resulted in the issuance of approximately 52.45 million shares, at \$0.40 per share, for \$20.60 million. As shown below, Kidoz had net assets of \$0.70 million. The company applied the remaining amount of \$19.90 million (acquisition price minus net assets) as goodwill, on the balance sheet ended March 31, 2019, presented later in this report. **We were pleased to see that Kidoz had positive net assets (with no significant debt) as Kidoz' revenues, earnings or capital structure were not disclosed at the time of acquisition.**

Kidoz' Net Assets

Cash	\$	183,264
Accounts receivable		1,074,895
Prepaid expenses		22,253
Equipment		14,873
Accounts payable and accrued liabilities		(311,565)
Short term loan		(284,187)
Goodwill and identified intangible assets		19,904,122
	\$	20,603,655

Source: Company

In March 2019, the company also **closed a \$2 million private placement** by issuing 5 million shares at \$0.40 per share. After closing the acquisition, the company changed its name to Kidoz Inc., and the ticker symbol was changed to TSXV: KIDZ.

Kidoz's CEO, Eldad Ben Tora, joined the company as the Co-CEO. Kidoz will have the ability to nominate three members to the board.

**Current
Portfolio**

The newly formed Kidoz owns the following key assets (please review our March 2019 report for a more detailed review of Kidoz' operations and business model):

1. The **KIDOZ content discovery network** – this is a distribution platform consisting of over 1,500 kids' gaming / learning apps and videos, that are U.S. Child Online Privacy Protection Act ("COPPA") COPPA & GDPR compliant (GDPR is the European equivalent of the U.S.' COPPA). The network not only offers distribution, but also monetization opportunities to developers of kids' apps. **The network currently has 50 million monthly users, and hundreds of brands (a few listed below) advertise on the network.** As the network owner & operator, Kidoz generates revenues by selling advertising directly to brands and delivering the ads across the Kidoz network, with a portion of the ad revenue paid to partner publishers. Ad revenues accounted for 75% of the company's revenues in Q1-2019.

A Few Brands Advertising on the Kidoz Network



Source: Kidoz

2. The **KIDOZ Kid-Mode Operating System** (www.kidoz.net) – this is a child-mode app that allows kids to use gaming / learning apps, and surf the internet safely with parental

control and customized content libraries. It is pre-installed on laptops and smartphones. Kidoz mode is currently the official kid mode for over 40 Original Equipment Manufacturers (OEMs), including Lenovo (SEHK: 992), Acer (TSEC: 2353), TCL (SZSE:000100), Hisense (SHSE:600060), Deutsche Telekom (DB:DTE), etc. Kidoz mode generates revenues through licensing fees paid by OEMs to include the Kidoz mode on their devices, and through advertisements delivered inside the Kidoz mode when the app is in use.

3. The **Rooplay edu-games platform** (www.rooplay.com) - Rooplay currently has more than 40 exclusive games (Rooplay Originals), and over 300 games in total. The company has seven international brands under license (see image below). Rooplay is now available on Android, the web, iOS (pending approval), PCs and soon Smart TV's.

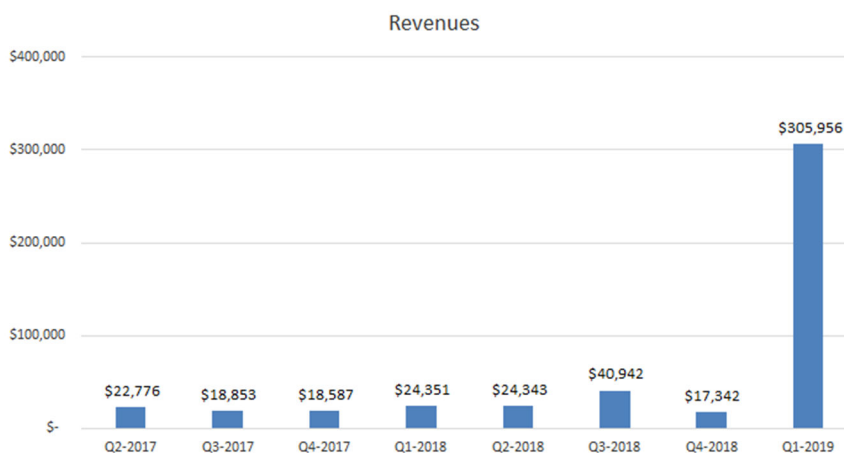


Source: Company

Through the Kidoz subsidiary, Rooplay gets instant access to millions of kids, thereby significantly lowering its user acquisition cost. Through Rooplay, Kidoz will have its own library of exclusive content.

As a result of the acquisition, the company's revenues shot up from \$17k in Q4-2018, to \$306k in Q1-2019. Revenues were up 1,156% YoY. Approximately 75% of the revenues (\$231k) in Q1-2019 came from ad revenues. The remaining 25% (\$75k) came from content revenues including subscriptions of Rooplay, in-app purchases on its social bingo sites, and Rooplay Originals.

Revenues up
1,156% YoY



Source: Company Data / FRC

Note that Q1-2019 only includes a month of Kidoz' revenues, implying a potential for annualized revenues of \$3.6 million. Note that this estimate assumes no seasonality in revenues, and that March revenues are a reasonable indicator of annual revenues. As mentioned earlier, Kidoz' revenues were undisclosed at the time of acquisition. In our previous report, we had made a very preliminary and speculative estimate of \$5 million revenues in 2019 from Kidoz. If March 2019 revenues are a good indicator of annual revenues, our previous estimate is likely too optimistic, and therefore, we are adjusting our revenue estimates accordingly (discussed later in the report). We will need to see Q2 financials to have a better assessment of Kidoz' financial performance.

The company reported gross margins of 42% in Q1-2019; the company had not reported COGS previously. Operating costs were \$0.74 million, which was up 9% YoY and 59% QoQ. As with revenues, these costs only reflect one month of Kidoz' operating cost, plus one-off acquisition expenses. Therefore, we need to wait for Q2 for a better assessment.

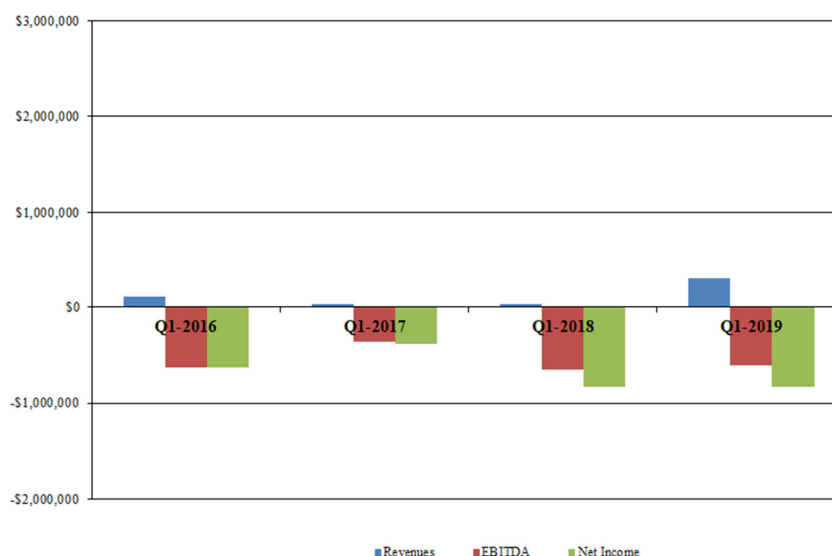
Margins	Q1-2017	Q1-2018	Q1-2019
Gross	100.0%	100.0%	41.8%
EBITDA	-1094.5%	-2684.8%	-200.5%
EBIT	-1097.0%	-2689.3%	-201.1%
Net	-1154.4%	-3430.5%	-270.1%

Expenses / Sales	Q1-2017	Q1-2018	Q1-2019
Selling & Marketing	89.0%	645.5%	28.2%
Development	644.9%	1111.3%	83.2%
Stock Based Compensation	0.0%	15.2%	1.6%
Compensation & Consultation	308.5%	662.9%	94.3%
G & A	152.1%	349.9%	34.9%
Total	1194.5%	2784.8%	242.3%

Source: Company Data / FRC

EBITDA in Q1-2019 was -\$0.61 million versus -\$0.65 million in Q1-2018. Net loss in Q1-2019 was \$0.83 million (EPS: -\$0.01) versus \$0.84 million (EPS: -\$0.01) in Q1-2019.

Revenue / EBITDA / Net Losses



Source: Company Data / FRC

Healthy Balance Sheet

At the end of Q1-2019, the company had \$1.83 million in cash, and \$2.24 million in working capital, with no debt.

Liquidity Analysis	2016	2017	2018	Q1-2019
Cash	\$60,190	\$478,397	\$641,536	\$1,831,085
Working Capital	\$13,896	\$345,184	\$662,573	\$2,236,001
Current Ratio	1.14	2.70	8.30	3.80
Debt / Capital	942.3%	136.9%	0.0%	0.6%
LT Debt / Capital	928.0%	125.9%	0.0%	0.0%
EBIT Interest Coverage Ratio	0.2	n/a	n/a	n/a

Source: Company Data / FRC

All Options in the Money

The company has 3.42 million options (weighted average exercise price of C\$0.45) and nil warrants outstanding. All the options are in the money, implying the company can raise up to C\$1.54 million if exercised.

Valuation

We are adjusting our revenue forecast for 2019 from \$6 million to \$3.40 million, and for 2020 from \$9.99 million to \$6.22 million. We are also adjusting our 2019 earnings estimate from \$0.92 million (EPS: \$0.01) to -\$1.03 million (EPS: -\$0.01), and our 2020 estimate from \$1.42 million (EPS: -\$0.01) to -\$0.27 million (EPS: -\$0.00). As mentioned earlier, we will need to see Q2 financials to have a better understanding on the newly acquired entity's revenues and margins.

Projections

STATEMENTS OF OPERATIONS			
(in US\$)- YE Dec 31st	2018	2019E	2020E
Total Revenues	106,978	3,399,500	6,215,250
Cost of Sales		1,339,850	2,296,575
Gross Profit	106,978	2,059,650	3,918,675
Expenses			
Selling & Marketing	352,770	265,000	750,000
Development	948,334	1,043,167	1,147,484
Stock Based Compensation	595,580		
Compensation & Consultation	622,779	1,322,779	1,587,335
Bad Debt Expense			
G & A	271,277	451,277	667,277
EBITDA	-2,683,762	-1,022,573	-233,421
Amortization	5,614	9,753	33,901
EBIT	-2,689,376	-1,032,326	-267,322
Interest & Bank Charges	-28,456		
Exchange rate and Unusual items	-9,092		
EBT	-2,726,924	-1,032,326	-267,322
Unusual gain or loss	44,572		
Income Taxes	-89,521		
Net Earnings for the period	-2,592,831	-1,032,326	-267,322
EPS	-0.04	-0.01	0.00

Source: FRC

As a result of the adjustments, our fair value estimate on Kidoz' shares dropped from C\$1.03 to C\$1.00 per share. We are maintaining our BUY rating.

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company's primary app, Rooplay, is in early stages.
- Attracting players and keeping them engaged is critical and requires continuous development and innovation.
- The social games sector is highly competitive.
- The company may have to pursue equity financings, which may dilute existing shareholders.
- The social games sector is currently not subject to any material regulations. Any unfavorable changes in regulations in the future may impact the company's business.

We are maintaining our risk rating at 4 (Speculative).

APPENDIX

STATEMENTS OF OPERATIONS			
(in US\$)- YE Dec 31st	2018	2019E	2020E
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EPS	-0.04	-0.01	0.00

BALANCE SHEET			
(in US\$)- YE Dec 31st			
	2018	2019E	2020E
Assets			
Cash	641,536	1,414,264	1,014,747
Accounts receivable	12,103	205,965	391,868
Prepaid expenses	99,739	41,193	78,374
Current Assets	753,378	1,661,422	1,484,988
Property and equipment	16,255	56,502	72,601
Other Assets			
Goodwill and identified intangible assets		19,946,418	19,946,418
Total Assets	769,633	21,664,342	21,504,007
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	90,805	308,222	415,210
Derivative			
Related parties			
Loans payable/ borrowings			
Current Liabilities	90,805	308,222	415,210
Loans payable			
Shareholder's Equity			
Share Capital	26,552,468	48,262,086	48,262,086
Foreign Currency Translation	24,580	24,580	24,580
Deficit	-25,898,220	-26,930,546	-27,197,869
Total Liabilities & Shareholders' Equity	769,633	21,664,342	21,504,007

STATEMENTS OF CASH FLOWS			
(in US\$)- YE Dec 31st	2018	2019E	2020E
Operating Activities			
Net earnings for the period	-2,592,831	-1,032,326	-267,322
Items not involving cash			
Depreciation	5,614	9,753	33,901
Gain on sale of domain name/others	-7,482		
Stock Based Compensation	595,580		
	-1,999,119	-1,022,573	-233,421
Accounts Receivable	2,919	-193,862	-185,903
Prepaid Expenses	-45,025	58,546	-37,181
Security Deposits			
Accounts payable and accrued expenses	-67,572	217,417	106,987
Changes in working capital	-109,678	82,101	-116,096
Cash from (used in) operations	-2,108,797	-940,472	-349,517
Financing activities			
Private Placement	2,279,408	1,763,200	
Cash provided by financing activities	2,284,085	1,763,200	-
Investing activities			
Acquisition of Equipment	-12,149	-50,000	-50,000
Cash used in investing activities	-12,149	-50,000	-50,000
Increase (decrease) in cash	163,139	772,728	-399,517
Cash beginning of period	478,397	641,536	1,414,264
Cash end of period	641,536	1,414,264	1,014,747

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:

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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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The distribution of FRC's ratings are as follows: BUY (68%), HOLD (8%), SELL / SUSPEND (24%).

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