

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

August 21, 2019

Kidoz Inc. (TSXV: KIDZ) – Well Positioned to Capture a Piece of the Growing Kids’ Digital Ad Market

Sector/Industry: Mobile Games

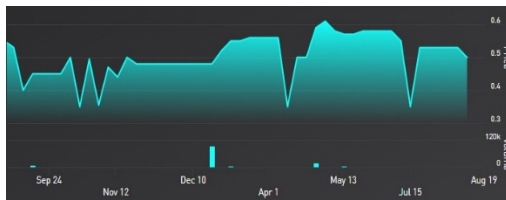
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Market Data (as of August 21, 2019)

Current Price	C\$0.50
Fair Value	C\$0.97
Rating*	BUY
Risk*	4
52 Week Range	C\$0.30 – C\$0.61
Shares O/S	131,124,989
Market Cap	C\$65.56 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	-5.7%
YoY TSXV	-17.5%

*see back of report for rating and risk definitions

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



Highlights

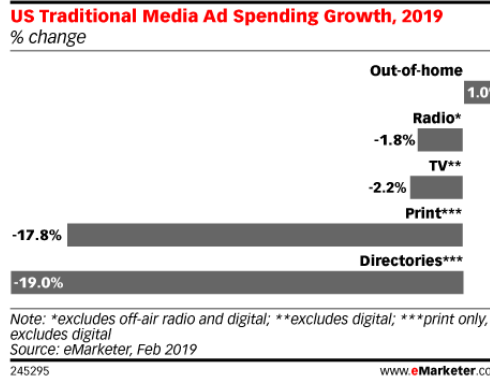
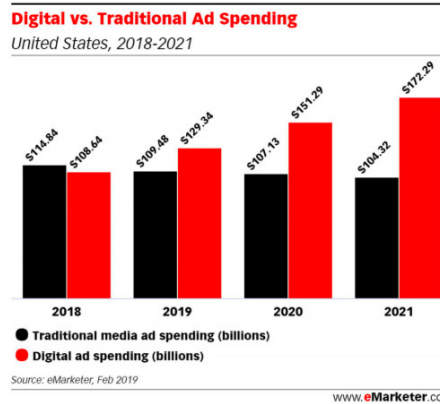
- As a result of the acquisition completed in Q1-2019, Kidoz generated revenues of \$0.82 million in Q2-2019, up from just \$24k in Q2-2018. Approximately 71% of revenues in Q2-2019 came from ads.
- We believe the company has a significant early mover advantage in the kids’ digital ad market, considering that it has over 1,500 kids’ gaming / learning apps, and videos on its network, that are also compliant with U.S. and European digital privacy laws for kids. Its network has 50 million monthly users, and hundreds of brands advertise on the network.
- PwC estimates that the global kids’ (under 13 years) digital ad market will grow by approximately 22% p.a. from 2018 (\$0.9 billion) to 2021 (\$1.7 billion).
- Kidoz’ EBITDA in Q2-2019 was -\$0.46 million versus -\$1.18 million in Q2-2018, and -\$0.61 million in Q1-2019. Its net loss in Q2-2019 was \$0.40 million (EPS: -\$0.00) versus \$0.99 million (EPS: -\$0.02) in Q2-2018, and \$0.83 million (EPS: -\$0.01) in Q1-2019.
- The company has a sound balance sheet with \$1.05 million in cash, \$2.05 million in working capital, and no debt at the end of Q2-2019.
- As Q2 revenues were lower than expectations, we have lowered our near-term revenue and EPS forecasts.

Key Financial Data (FYE - Dec 31)

(US\$)	2015	2016	2017	2018	2019E	2020E
Cash	570,086	60,190	478,397	641,536	1,002,863	112,059
Working Capital	454,447	13,896	345,184	662,573	855,386	92,085
Total Assets	1,129,526	129,093	557,853	769,633	20,911,440	20,216,012
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	2,960,314	5,372,072
Net Income	(2,965,682)	(3,156,302)	(1,741,951)	(2,592,831)	(1,712,148)	(743,345)
EPS	-0.05	-0.05	-0.03	-0.04	-0.01	-0.01

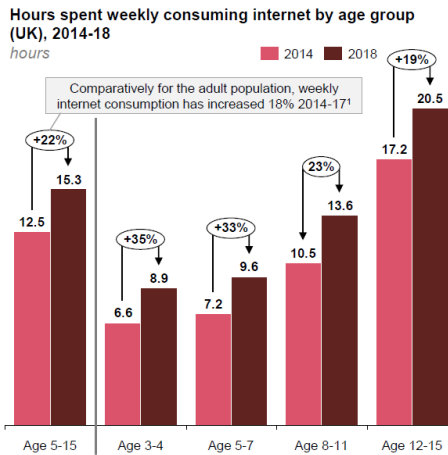
Rapidly Growing Digital Ad Spending

With rising consumption of content on mobile phones, laptops and tablets, companies / brands are rapidly increasing ad spending on digital platforms as opposed to traditional platforms. **According to eMarketer, total digital ad spending in the U.S. alone is expected to grow 19% to \$129 billion in 2019.** Digital spending, which is expected to account for 54% of total ad spending in 2019, is expected to grow 17% in 2020, and 14% in 2021 to \$172 billion.



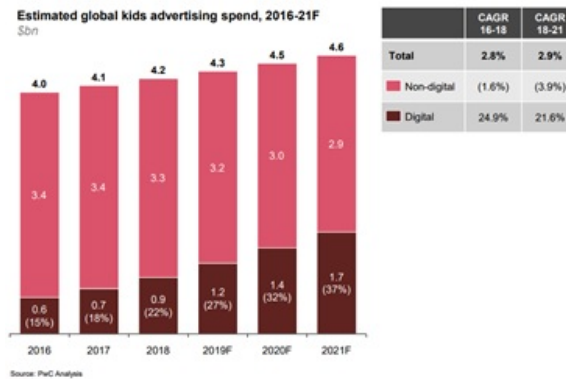
Kids – One of the Fastest Growing Online Audience

One of the fastest-growing online audience are kids. Approximately one-third of internet users globally are kids. According to PwC, approximately 40% of new internet users in 2018 were kids, or 62 million kids globally. **Every second, two kids go online for the first time, or 170,000 new kid users per day.** Also, the time spent on the internet by kids has increased significantly from 2014 to 2018.



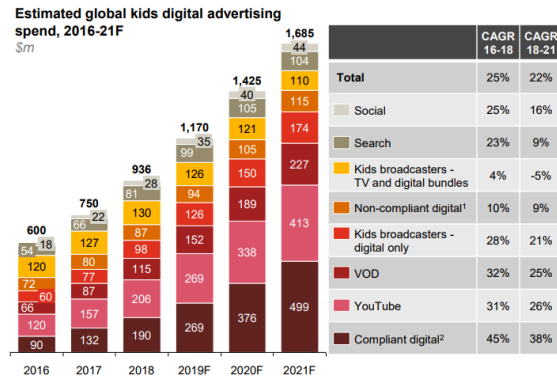
Source: PwC

PwC estimates that the global kids (under 13 years) digital ad market will grow by approximately 22% p.a. from 2018 (\$0.9 billion) to 2021 (\$1.7 billion).



Increasing Ads on Compliant Platforms

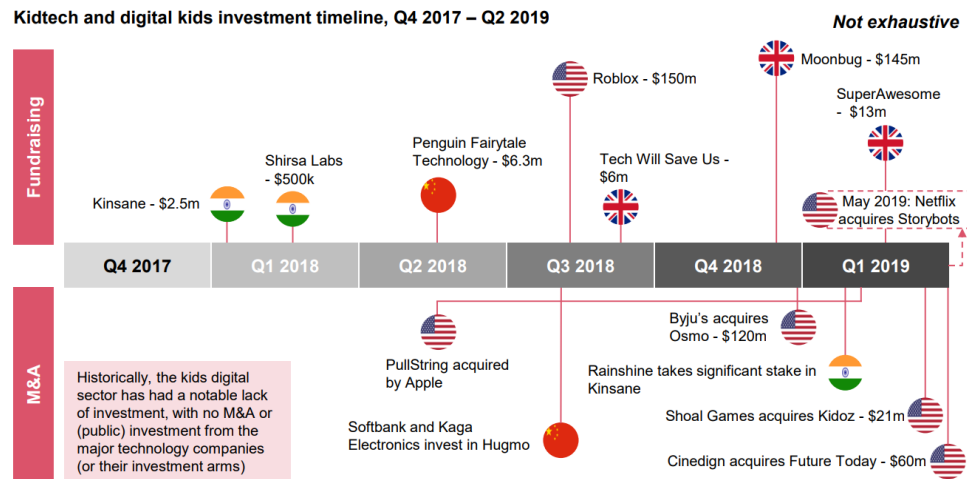
The following chart shows the estimated ad spend by platform. As shown, kid tech-enabled digital content compliant with the U.S. Child Online Privacy Protection Act (“COPPA”), GDPR compliant (European equivalent), and other kids digital privacy laws are expected to capture the largest share (30% by 2021).



Note: 1) Kid's or family content publishers using delivery technology which is not compliant with COPPA/ GDPR-K/ other kids digital privacy laws.
 2) Kidtech-enabled digital content compliant with COPPA/ GDPR-K/ other kids digital privacy laws.
 Source: PwC Analysis

Source: PwC

The rapid growth in online adoption by kids has also resulted in increased M&A activities in the space, as shown below. Interestingly, the chart, prepared by PwC, also shows Shoal's acquisition of Kidz earlier this year.



Source: PwC

Overall, we believe that the **Kidz content discovery network has a significant early mover advantage** considering that it has over 1,500 kids' gaming / learning apps and videos that are COPPA & GDPR compliant. In June 2019, Google (Nasdaq: GOOG) certified the Kidz network as an approved advertising network for apps targeting kids. The Kidz 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.**

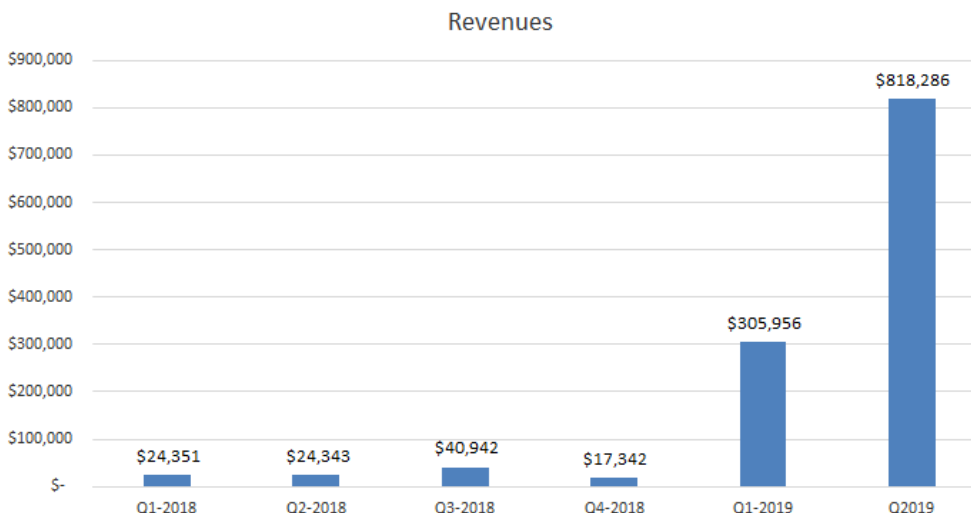
A Few Brands That Advertising on the Kidz Network



Source: Kidz

Reports
\$0.82M in Revenues in Q2

As a result of the Kidoz acquisition, the company’s revenues increased to \$0.82 million in Q2-2019, up from \$0.31 million in Q1-2019, and from \$24k in Q2-2018. **H1-2019 revenues were \$1.12 million, up from just \$49k in H1-2018.** Approximately 71% of the revenues in Q2-2019 came from ad revenues. The remaining 29% came from content revenues, primarily subscriptions on Rooplay, in-app purchases on social bingo sites, and Rooplay Originals. Surprisingly, content revenues were up from \$24k in Q2-2018 to \$0.24 million in Q2-2019. We believe this likely indicates a significant increase in traffic to Rooplay and social bingo sites from the Kidoz network.



	Q1-2018	Q1-2019	Q2-2018	Q2-2019	2018 (6M)	2019 (6M)
Ad Revenues	-	230,862	-	579,052	-	809,914
Content Revenues	24,351	75,094	24,343	239,234	48,694	314,328
Total Revenues	24,351	305,956	24,343	818,286	48,694	1,124,242

Source: Company Data / FRC

The company reported gross margins of 30% in Q2-2019; they had not reported COGS in the same period last year. Operating costs (excluding stock based compensation) were \$0.70 million, up 14% YoY, and down 4% QoQ. The QoQ drop was because the company had high consulting fees related to the acquisition of Kidoz in Q1-2019.

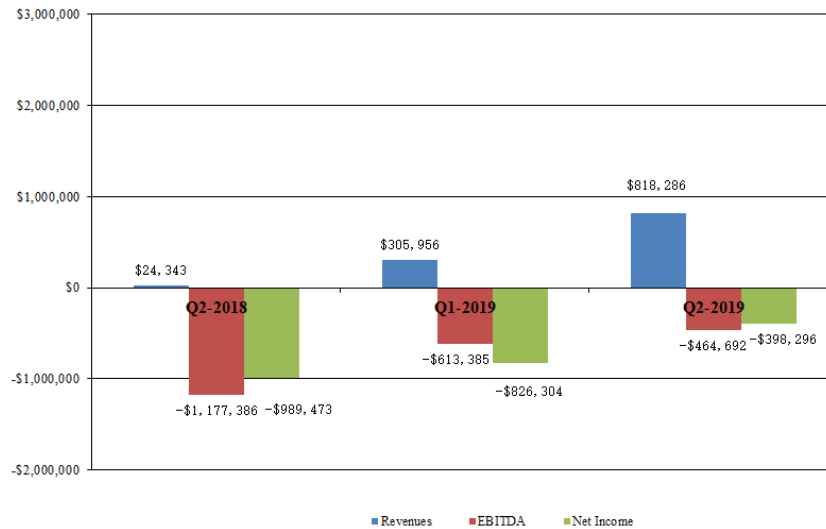
Margins	Q1-2018	Q1-2019	Q2-2018	Q2-2019	2018 (6M)	2019 (6M)
Gross	100.0%	41.8%	100.0%	29.8%	100.0%	33.1%
EBITDA	-2684.8%	-200.5%	-4836.7%	-56.8%	-3760.5%	-95.9%
EBIT	-2689.3%	-201.1%	-4842.4%	-57.4%	-3765.7%	-96.5%
Net	-3430.5%	-270.1%	-4064.7%	-48.7%	-3747.6%	-108.9%

Expenses / Sales	Q1-2018	Q1-2019	Q2-2018	Q2-2019	2018 (6M)	2019 (6M)
Selling & Marketing	645.5%	28.2%	474.5%	11.7%	560.0%	16.2%
Development	1111.3%	83.2%	1090.4%	34.9%	1100.9%	48.0%
Stock Based Compensation	15.2%	1.6%	2402.3%	0.6%	1208.5%	0.9%
Compensation & Consultation	662.9%	94.3%	703.3%	18.2%	683.1%	38.9%
G & A	349.9%	34.9%	266.1%	21.3%	308.0%	25.0%
Total	2784.8%	242.3%	4936.7%	86.6%	3860.5%	129.0%

Source: Company Data / FRC

EBITDA in Q2-2019 was $-\$0.46$ million versus $-\$1.18$ million in Q2-2018, and $-\$0.61$ million in Q1-2019. The net loss in Q2-2019 was $\$0.40$ million (EPS: $-\$0.00$) versus $\$0.99$ million (EPS: $-\$0.02$) in Q2-2018, and $\$0.83$ million (EPS: $-\$0.01$) in Q1-2019.

Revenue / EBITDA / Net Losses



Source: Company Data / FRC

As a result of the improvement in operating cash flows, free cash flows were $-\$1.08$ million in H1-2019 versus $-\$1.32$ million in H1-2018.

Summary of Cash Flows	2018 (6M)	2019 (6M)
Cash Flows from Operations	(1,314,936)	(1,226,201)
Cash Flows from Investing	(8,720)	148,572
Cash Flows from Financing	2,284,819	1,485,137
Net Change	961,163	407,508
Free Cash Flows	(1,323,656)	(1,077,629)

Sound Balance Sheet

At the end of Q2-2019, the company had $\$1.05$ million in cash, $\$2.05$ million in working capital, with no debt.

Liquidity Analysis	2018	Q1-2019	Q2-2019
Cash	\$641,536	\$1,831,085	\$1,049,044
Working Capital	\$662,573	\$2,236,001	\$2,052,983
Current Ratio	8.30	3.80	3.59
Debt / Capital	0.0%	0.6%	0.0%
LT Debt / Capital	0.0%	0.0%	0.0%
EBIT Interest Coverage Ratio	n/a	n/a	n/a

Source: Company Data / FRC

Stock Options and Warrants

Kidoz has 3.34 million options (weighted average exercise price of C\$0.45) and nil warrants outstanding. 2.05 million options are in the money, implying the company can raise up to C\$0.86 million if exercised.

Valuation

We are adjusting our revenue forecast for 2019 from \$3.40 million to \$2.96 million, and for 2020 from \$6.22 million to \$5.37 million. We are also adjusting our 2019 earnings estimate from -\$1.03 million (EPS: -\$0.01) to -\$1.71 million (EPS: -\$0.01), and our 2020 estimate from -\$0.27 million (EPS: -\$0.00). to -\$0.74 million (EPS: -\$0.01).

Projections

STATEMENTS OF OPERATIONS				
	2017	2018	2019E	2020E
Total Revenues	93,475	106,978	2,960,314	5,372,072
Cost of Sales	-		1,854,379	2,804,293
Gross Profit	93,475	106,978	1,105,935	2,567,779
Expenses				
Selling & Marketing	244,810	352,770	375,000	500,000
Development	833,202	948,334	1,043,167	1,147,484
Stock Based Compensation	43,212	595,580	19,860	59,580
Compensation & Consultation	466,916	622,779	735,015	808,517
Provision for doubtful accounts				
Bad Debt Expense				
G & A	256,303	271,277	628,859	765,499
EBITDA	-1,750,968	-2,683,762	-1,695,967	-713,301
Amortization	4,068	5,614	16,181	30,044
EBIT	-1,755,036	-2,689,376	-1,712,148	-743,345
Interest & Bank Charges	-84,114	-28,456		
Exchange rate and Unusual items	-12,274	-9,092		
EBT	-1,851,424	-2,726,924	-1,712,148	-743,345
Unusual gain or loss	78,712	44,572		
Income Taxes	-30,761	-89,521		
Net Earnings for the period	-1,741,951	-2,592,831	-1,712,148	-743,345
EPS	-0.03	-0.04	-0.01	-0.01

Source: FRC

Our revised fair value estimate on Kidoz' shares dropped from C\$1.00 to C\$0.97 per share. We are maintaining our BUY rating.

Risks

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

- Attracting players and keeping them engaged is critical and requires continuous development and innovation.

- The company may have to pursue equity financings, which may dilute existing shareholders.
- The average daily trading volume is relatively low as shares are thinly traded.
- 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				
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EPS	-0.03	-0.04	-0.01	-0.01

BALANCE SHEET					
(in US\$)- YE Dec 31st	2016	2017	2018	2019E	2020E
Assets					
Cash	60,190	478,397	641,536	1,002,863	112,059
Accounts receivable	17,194	15,022	12,103	110,593	256,778
Prepaid expenses	33,494	54,714	99,739	22,119	51,356
Current Assets	110,878	548,133	753,378	1,135,576	420,193
Property and equipment	10,148	9,720	16,255	50,074	70,030
Other Assets	-	-			
Goodwill and identified intangible assets	8,067			19,725,790	19,725,790
Total Assets	129,093	557,853	769,633	20,911,440	20,216,012
Liabilities & Shareholders' Equity					
Accounts payables & accrued liabilities	91,626	114,192	90,805	280,190	328,108
Derivative		44,572			
Related parties	5,356	44,185			
Current Liabilities	96,982	202,949	90,805	280,190	328,108
Loans payable	347,698	502,313			
Shareholder's Equity					
Share Capital	21,223,271	23,133,400	26,552,468	48,217,037	48,217,037
Foreign Currency Translation	24,580	24,580	24,580	24,580	24,580
Deficit	-21,563,438	-23,305,389	-25,898,220	-27,610,368	-28,353,712
Total Liabilities & Shareholders' Equity	129,093	557,853	769,633	20,911,440	20,216,012

STATEMENTS OF CASH FLOWS					
(in US\$)- YE Dec 31st	2016	2017	2018	2019E	2020E
Operating Activities					
Net earnings for the period	-3,156,302	-1,741,951	-2,592,831	-1,712,148	-743,345
Items not involving cash					
Depreciation	3,570	4,068	5,614	16,181	30,044
Trophy Bingo Amortization	482,013				
Gain on sale of domain name/others	262,464	5,420	-7,482		
Stock Based Compensation		43,212	595,580		
Issuance of consultant stock options					
Loss on disposal of equipment / Others					
	-2,408,255	-1,689,251	-1,999,119	-1,695,967	-713,301
Accounts Receivable	27,754	2,172	2,919	-98,490	-146,184
Other Assets	893	8,067			
Prepaid Expenses	-16,289	-21,220	-45,025	77,620	-29,237
Accounts payable and accrued expenses	-80,810	61,395	-67,572	189,385	47,918
Changes in working capital	-68,452	50,414	-109,678	168,515	-127,503
Cash from (used in) operations	-2,476,707	-1,638,837	-2,108,797	-1,527,452	-840,804
Financing activities					
Proceeds from secured borrowings, net	400,811	188,135	-1,923		
Private Placement	1,573,404	1,820,239	2,279,408	1,763,200	
Options / Warrants		52,310	6,600		
Cash provided by financing activities	1,974,215	2,060,684	2,284,085	1,763,200	-
Investing activities					
Acquisition of Equipment	-7,404	-3,640	-12,149	-50,000	-50,000
Proceeds from sale of subsidiary				183,264	
Goodwill / Others				-7,685	
Cash used in investing activities	-7,404	-3,640	-12,149	125,579	-50,000
Increase (decrease) in cash	-509,896	418,207	163,139	361,327	-890,804
Cash beginning of period	570,086	60,190	478,397	641,536	1,002,863
Cash end of period	60,190	478,397	641,536	1,002,863	112,059

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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