Siddharth Rajeev, B.Tech, MBA, CFA

Fundamental Research Corp.
Investment Analysis for Intelligent Investors

November 29, 2019

Kidoz Inc. (TSXV: KIDZ) – Q3 Revenues up 55% QoQ, and 3,004% YoY

Sector/Industry: Mobile Games

Click here for more research on the company and to share your views

Market Data (as of November 29, 2019)

Current Price	**C$0.40**
Fair Value	**C$0.95**
Rating*	**BUY**
Risk*	**4**
52 Week Range	C$0.20 – C$0.61
Shares O/S	131,124,989
Market Cap	C$52.45 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	-16.7%
YoY TSXV	-9.8%

*see back of report for rating and risk definitions
*All the figures are in US$ unless otherwise specified.

OTCPK:KDOZ

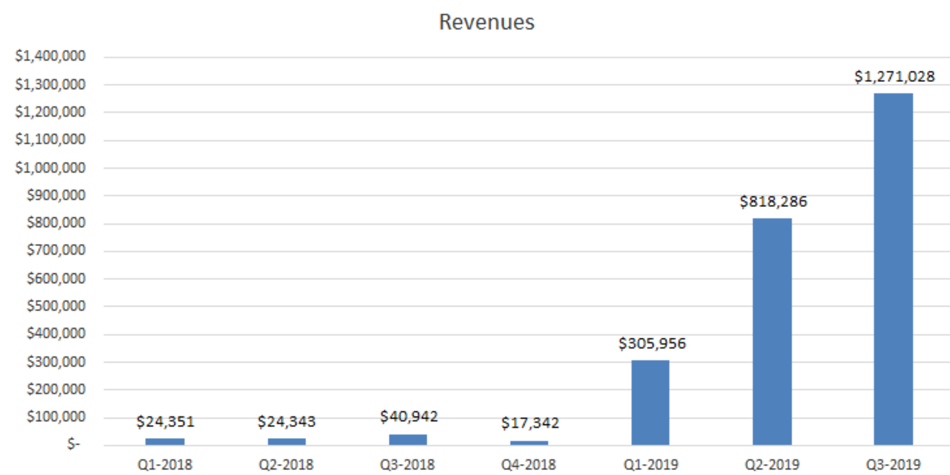
Highlights

- In Q3-2019, Kidoz Inc. **beat our expectations** and generated $1.27 million in revenues, up 55% QoQ, and 3,004% YoY.
- As a result of the Kidoz Ltd. acquisition in March, revenues in the first nine months of 2019 were $2.40 million, up from just $90k in the first nine months of 2018.
- Monthly Active Users (MAU) on the KIDOZ network crossed 100 million across 3,500+ apps.
- Approximately 92% of the revenues in Q3-2019 came from ad revenues (71% in Q2-2019).
- **Management is focused on ramping up ad revenues, and is transitioning to an ad-focused business model rather than focusing on generating gaming / content revenues.** As per PwC, the global kids (under 13 years) digital ad market is expected to grow by approximately 22% p.a. from 2018 ($0.9 billion) to 2021 ($1.7 billion).
- Kidoz reported gross margins of 41% in Q3-2019, up from 30% in Q2-2019.
- Operating costs (excluding stock based compensation) in Q3-2019 were $0.64 million, down 10% QoQ.
- As a result of higher revenues and lower costs, EBITDA improved from -$0.46 million in Q2-2019, to -$0.12 million in Q3-2019.
- At the end of Q3-2019, the company had $0.81 million in cash, $2.11 million in working capital, with no debt.

Key Financial Data (FYE - Dec 31) (US$)	2015	2016	2017	2018	2019E	2020E
Cash	570,086	60,190	478,397	641,536	607,689	363,990
Working Capital	454,447	13,896	345,184	662,573	1,471,446	1,225,101
Total Assets	1,129,526	129,093	557,853	769,633	21,791,754	21,605,874
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	3,899,420	6,147,750
Net Income	(2,965,682)	(3,156,302)	(1,741,951)	(2,592,831)	(1,021,081)	(226,390)
EPS	-0.05	-0.05	-0.03	-0.04	-0.01	0.00

Q3 Revenues Up 55% QoQ

Q3-2019 revenues were up 55% QoQ, and 3,004% YoY, to $1.27 million. **Revenues in the first nine months of 2019 were $2.40 million, up from just $90k in the first nine months of 2018,** as a result of the Kidoz Ltd. acquisition in Q1-2019. Approximately 92% of the revenues in Q3-2019 came from ad revenues (71% in Q2-2019). The remaining 8% came from content revenues, primarily including subscriptions of Rooplay, in-app purchases on social bingo sites, and Rooplay Originals.



Revenues	Q1-2018	Q1-2019	Q2-2018	Q2-2019	Q3-2018	Q3-2019	2018-9M	2019-9M
Ad Revenues		230,862		579,052		1,165,609		1,975,523
Content Revenues	24,351	75,094	24,343	239,234	40,942	105,419	89,636	419,747
Total Revenues	**24,351**	**305,956**	**24,343**	**818,286**	**40,942**	**1,271,028**	**89,636**	**2,395,270**

Source: Company Data / FRC

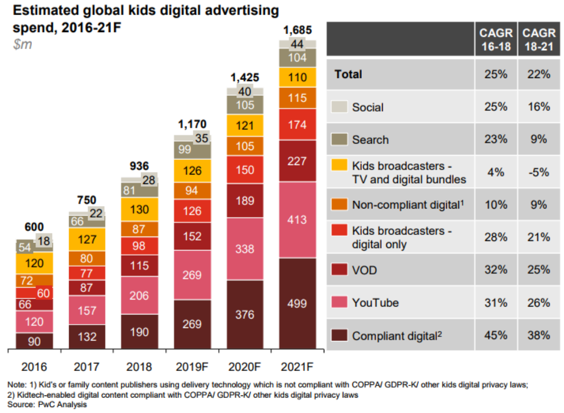
Growing Focus on Kids-Safe Compliant Ads

Kidoz reported annualized revenues of $3 - $3.5 million in Q1 and Q2, and then $5 million in Q3, which is in line with our original estimate, when the acquisition was completed in March 2019. Management **attributed the significant increase in revenues in Q3** partially to the certification of the KIDOZ Safe Ad Network, as one of only 11 approved advertising networks for apps targeting kids, by Google (Nasdaq: GOOG) in June 2019. Also, Apple's App Store and Google Play recently made announcements pertaining to app developers; these platforms are now only allowing ad networks that adhere to guidelines that ensure children's safety, privacy, and security. Youtube was recently fined $170 million for allegedly violating the U.S. Child Online Privacy Protection Act ("COPPA"). **Note that KIDOZ is COPPA and GDPR (European equivalent of the U.S. COPPA) compliant.** A few reasons that make Kidoz attractive to the parents of children using the network are listed below:

- No behavioral targeting & remarketing
- Campaign data is deleted after 60 days
- Personal information is not shared with advertisers

Source: Company

The following chart shows the estimated ad spend by platform. As shown, PwC estimates that kid tech-enabled digital content compliant with the COPPA, GDPR, and other kids digital privacy laws are expected to capture the largest share (30% by 2021).



Source: PwC

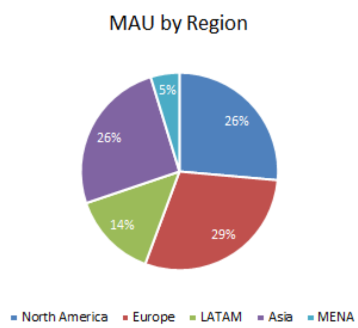
The company is aggressively engaging new publishers (to constantly expand content), while seeking new brands worldwide to ramp up ad revenues.

When the acquisition was completed in March 2019, the KIDOZ network was stated to have approximately **50 million Monthly Active Users (MAU)**, and hundreds of brands (a few listed below) that advertise on the network. However, in the latest press release, the company stated that the network **crossed 100 million MAU across 3,500+ apps.**

A Few of the Brands Advertising on the Kidoz Network

Source: Company

The following chart shows the geographical split of current users; which we believe is evenly spread out and well diversified.

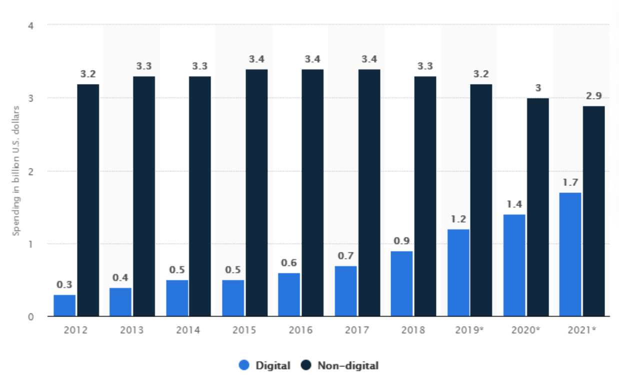


Source: Company

Kids – One of the Fastest Growing Online Audience

One of the fastest-growing online audience are kids. Approximately one-third of the internet users globally are kids. According to PwC, approximately 40% of the new internet users in 2018 were kids, or 62 million kids globally. 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).**

Global Spending on Ads to Children



Source: Statista

A key challenge with the company's previous business model (publishing / developing gaming apps) was the lack of sufficient marketing dollars to attract users. However, Kidoz' business model does not need a significant marketing budget to grow; growth can be achieved by engaging new publishers (to expand content and distribution), and adding new brands to join their ad network.

Business Model to Grow Without a Significant Marketing Budget

Here is a simplistic explanation of Kidoz's model: basically, KIDOZ's Software Development Kit (SDK) is integrated with kids' apps / games to connect with KIDOZ's ad network. Kidoz typically gets paid when a user clicks on an ad; similar to how Youtube generates revenues through ads. Just like Youtube, a percentage of this ad revenue is passed on to publishers / developers, providing them incentive to incorporate ad SDKs and monetize their apps.

However, this is a **highly competitive space** with a number of players offering their ad SDKs, including Google's AdMob. An app typically uses 3 to 5 monetization SDKs. Ads from various SDKs are usually prioritized by price; which is the share of ad revenues offered to publishers by SDKs. KIDOZ management believes they will be able to gain traction through their following key advantages:

- KIDOZ is COPPA and GDPR compliant. Note the Google has only approved 11 advertising networks as Safe Ad Networks for kids.
- KIDOZ is customizable to fit any app, looks native and non-intrusive.
- Ability to target ads based on location, age and interests.
- Management also indicated that one of their main advantages over AdMob is that, unlike AdMob, they curate all ad campaigns to ensure safety for kids

Gross Margins Improve QoQ

As mentioned earlier, Kidoz's Q3-2019 revenues implied an annual run rate of $5 million, based on an average of approximately 75 million MAU, **implying annual revenues of $0.067 per user.** We believe this is in line with the industry. For example, a leading ad SDK, named Startapp, has over 1 billion MAUs, and has annual revenue of $69 million (Source: Owler), or $0.069 per user. Our revenue projections for Kidoz are presented later in this report.

Continuing our discussion on Kidoz's Q3 financials, **gross margins were 41% in Q3-2019**; they had not reported COGS in the same period last year. Operating costs (excluding stock based compensation) were $0.64 million, up 45% YoY, and down 10% QoQ. The QoQ drop was because Q2 costs were unusually higher due to reorganization costs associated with the acquisition.

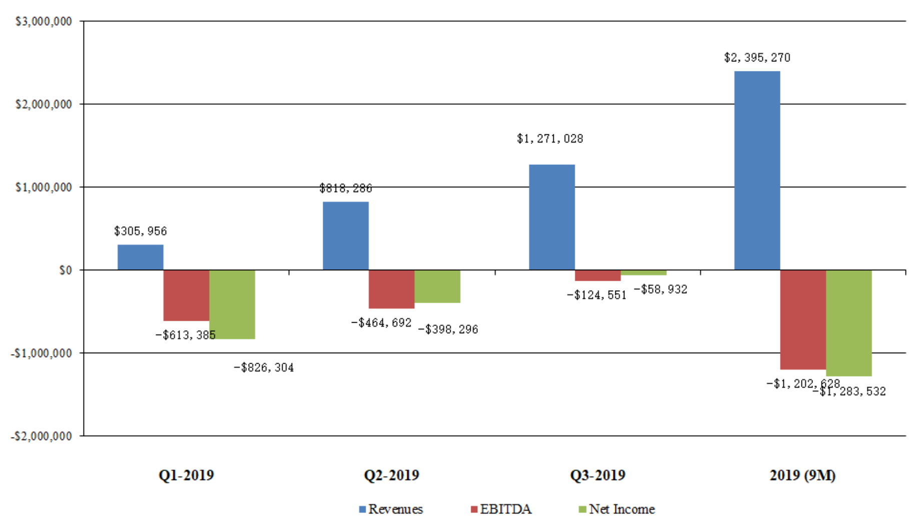
Margins	Q1-2018	Q1-2019	Q2-2018	Q2-2019	Q3-2018	Q3-2019	2018-9M	2019-9M
Gross	100.0%	41.8%	100.0%	29.8%	100.00%	40.68%	100.00%	37.11%
EBITDA	-2684.8%	-200.5%	-4836.7%	-56.8%	-982.07%	-9.80%	-2491.45%	-50.21%
EBIT	-2689.3%	-201.1%	-4842.4%	-57.4%	-985.72%	-10.20%	-2495.90%	-50.69%
Net	-3430.5%	-270.1%	-4064.7%	-48.7%	-970.09%	-4.64%	-2478.93%	-53.59%

Expenses / Sales	Q1-2018	Q1-2019	Q2-2018	Q2-2019	Q3-2018	Q3-2019	2018-9M	2019-9M
Selling & Marketing	645.5%	28.2%	474.5%	11.7%	89.9%	7.4%	345.3%	11.5%
Development	1111.3%	83.2%	1090.4%	34.9%	506.8%	21.3%	829.5%	33.8%
Stock Based Compensation	15.2%	1.6%	2402.3%	0.6%	8.7%	0.4%	660.5%	0.6%
Compensation & Consulation	662.9%	94.3%	703.3%	18.2%	351.7%	10.8%	531.7%	24.0%
G & A	349.9%	34.9%	266.1%	21.3%	125.1%	10.5%	224.5%	17.3%
Total	**2784.8%**	**242.3%**	**4936.7%**	**86.6%**	**1082.1%**	**50.5%**	**2591.5%**	**87.3%**

Source: Company Data / FRC

EBITDA in Q3-2019 was -$0.12 million versus -$0.40 million in Q3-2018, and -$0.46 million in Q2-2019. Net losses in Q3-2019 were $0.06 million (EPS: -$0.00) versus $0.40 million (EPS: -$0.01) in Q3-2018, and $0.40 million (EPS: -$0.00) in Q2-2019.

Revenue / EBITDA / Net Losses



Source: Company Data / FRC

As a result of the improvement in operating cash flows, free cash flows were -$1.24 million in the first nine months of 2019 versus -$1.76 million in the comparable period in the previous year.

Summary of Cash Flows	2018 (9M)	2019 (9M)
Cash Flows from Operations	(1,752,786)	(1,408,578)
Cash Flows from Investing	(8,720)	169,388
Cash Flows from Financing	2,284,819	1,410,131
Net Change	523,313	170,941
Free Cash Flows	**(1,761,506)**	**(1,239,190)**

Healthy Balance Sheet/ No Debt

At the end of Q3-2019, the company had $0.81 million in cash, $2.11 million in working capital, with no debt.

Liquidity Analysis	2018	Q1-2019	Q2-2019	Q3-2019
Cash	$641,536	$1,831,085	$1,049,044	$812,477
Working Capital	$662,573	$2,236,001	$2,052,983	$2,108,850
Current Ratio	8.30	3.80	3.59	3.85
Debt / Capital	0.0%	0.6%	0.0%	0.0%
LT Debt / Capital	0.0%	0.0%	0.0%	0.0%
EBIT Interest Coverage Ratio	n/a	n/a	n/a	n/a

Source: Company Data / FRC

Stock Options and Warrants

The company has 3.33 million options (weighted average exercise price of $0.45) and nil warrants outstanding. None of the options are in the money.

FRC Projections and Valuation

As Q3 revenues beat our expectations, and due to the significant increase in MAU to 100 million, we are adjusting our revenue forecast for 2019 from $2.96 million to $3.90 million, and for 2020, from $5.37 million to $6.15 million. We are also adjusting our 2019 earnings estimate from -$1.71 million (EPS: -$0.01) to -$1.02 million (EPS: -$0.01), and our 2020 estimate from -$0.74 million (EPS: -$0.00). to -$0.23 million (EPS: -$0.00).

Projections

STATEMENTS OF OPERATIONS								
Revenues	**2018**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Total Revenues	**106,978**	**3,899,420**	**6,147,750**	**11,976,682**	**21,490,379**	**36,231,101**	**61,571,917**	**104,860,942**
Cost of Sales		2,182,102	3,419,325	6,560,305	10,976,367	18,996,106	32,825,492	56,497,893
Gross Profit	**106,978**	**1,717,318**	**2,728,425**	**5,416,377**	**10,514,011**	**17,234,996**	**28,746,425**	**48,363,049**
Expenses								
Selling & Marketing	352,770	375,000	250,000	500,000	500,000	500,000	500,000	500,000
Development	948,334	1,043,167	1,147,484	1,262,233	1,388,456	1,527,301	1,680,032	1,848,035
Stock Based Compensation	595,580	19,960	59,880	74,850	93,563	116,953	146,191	182,739
Compensation & Consulation	622,779	735,015	808,517	970,220	1,164,264	1,397,117	1,676,540	2,011,848
Provision for doubtful accounts								
Bad Debt Expense								
G & A	271,277	549,075	658,890	1,283,610	2,303,248	3,883,097	6,599,019	11,238,555
EBITDA	**-2,683,762**	**-1,004,900**	**-196,346**	**1,325,465**	**5,064,481**	**9,810,527**	**18,144,643**	**32,581,872**
Amortization	5,614	16,181	30,044	42,018	46,807	48,723	49,489	49,796
EBIT	**-2,689,376**	**-1,021,081**	**-226,390**	**1,283,447**	**5,017,674**	**9,761,805**	**18,095,154**	**32,532,077**
Interest & Bank Charges	-28,456							
Exchange rate and Unusual items	-9,092							
EBT	**-2,726,924**	**-1,021,081**	**-226,390**	**1,283,447**	**5,017,674**	**9,761,805**	**18,095,154**	**32,532,077**
Unusual gain or loss	44,572							
Income Taxes	-89,521				1,505,302	2,928,541	5,428,546	9,759,623
Net Earnings for the period	**-2,592,831**	**-1,021,081**	**-226,390**	**1,283,447**	**3,512,372**	**6,833,263**	**12,666,608**	**22,772,454**

Source: FRC

Due to the transition to an ad-focused business model, we are also lowering our long-term revenue forecasts from gaming / content revenues, and raising ad revenue forecasts. Our long-term forecasts for the KIDOZ network is based on achieving 1 billion MAUs by 2025. Revenues per user is estimated to increase to $0.10 per year by 2025, up from the current $0.07 per year. **As a result of these changes, our revised DCF valuation on Kidoz is $0.95 per share versus our previous estimate of $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:

- Any unfavorable changes in regulations in the future may impact the company's business.
- Ability to attract publishers and brands will be key to long-term growth.
- The company is operating in a highly competitive space.
- Kidoz may have to pursue equity financings, which may dilute existing shareholders.
- The average daily trading volume is relatively low as shares are thinly traded.

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

APPENDIX

STATEMENTS OF OPERATIONS			
Revenues	**2018**	**2019E**	**2020E**
Total Revenues	**106,978**	**3,899,420**	**6,147,750**
Cost of Sales		2,182,102	3,419,325
Gross Profit	**106,978**	**1,717,318**	**2,728,425**
Expenses			
Selling & Marketing	352,770	375,000	250,000
Development	948,334	1,043,167	1,147,484
Stock Based Compensation	595,580	19,960	59,880
Compensation & Consulation	622,779	735,015	808,517
Provision for doubtful accounts			
Bad Debt Expense			
G & A	271,277	549,075	658,890
EBITDA	**-2,683,762**	**-1,004,900**	**-196,346**
Amortization	5,614	16,181	30,044
EBIT	**-2,689,376**	**-1,021,081**	**-226,390**
Interest & Bank Charges	-28,456		
Exchange rate and Unusual items	-9,092		
EBT	**-2,726,924**	**-1,021,081**	**-226,390**
Unusual gain or loss	44,572		
Income Taxes	-89,521		
Net Earnings for the period	**-2,592,831**	**-1,021,081**	**-226,390**
EPS	-0.04	-0.01	0.00

BALANCE SHEET (in US$)- YE Dec 31st	2018	2019E	2020E
Assets			
Cash	641,536	607,689	363,990
Accounts receivable	12,103	1,373,854	1,364,213
Prepaid expenses	99,739	34,346	81,853
Current Assets	**753,378**	**2,015,890**	**1,810,055**
Property and equipment	16,255	50,074	70,030
Other Assets			
Goodwill and identified intangible assets		19,725,790	19,725,790
Total Assets	**769,633**	**21,791,754**	**21,605,874**
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	90,805	544,443	584,954
Derivative			
Related parties			
Current Liabilities	**90,805**	**544,443**	**584,954**
Loans payable			
Lease			
Shareholder's Equity			
Share Capital	26,552,468	48,142,031	48,142,031
Foreign Currency Translation	24,580	24,580	24,580
Deficit	-25,898,220	-26,919,301	-27,145,691
Total Liabilities & Shareholders' Equity	**769,633**	**21,791,754**	**21,605,874**

STATEMENTS OF CASH FLOWS (in US$)- YE Dec 31st	2018	2019E	2020E
Operating Activities			
Net earnings for the period	-2,592,831	-1,021,081	-226,390
Items not involving cash			
Depreciation	5,614	16,181	30,044
Trophy Bingo Amortization			
Gain on sale of domain name/others	-7,482		
Stock Based Compensation	595,580		
Issuance of consultant stock options			
Loss on disposal of equipment / Others			
	-1,999,119	**-1,004,900**	**-196,346**
Accounts Receivable	2,919	-1,361,751	9,642
Other Assets			
Prepaid Expenses	-45,025	65,393	-47,506
Accounts payable and accrued expenses	-67,572	453,638	40,511
Changes in working capital	-109,678	-842,720	2,646
Cash from (used in) operations	**-2,108,797**	**-1,847,620**	**-193,700**
Financing activities			
Proceeds from secured borrowings, net	-1,923		
Private Placement	2,279,408	1,688,194	
Options / Warrants	6,600		
Cash provided by financing activities	**2,284,085**	**1,688,194**	-
Investing activities			
Acquisition of Equipment	-12,149	-50,000	-50,000
Proceeds from sale of subsidiary		183,264	
Goodwill / Others		-7,685	
Cash used in investing activities	**-12,149**	**125,579**	**-50,000**

.

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.

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by KIDZ to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, KIDZ has agreed to a minimum coverage term including four reports. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time.

The distribution of FRC's ratings are as follows: BUY (69%), HOLD (8%), SELL / SUSPEND (23%).
To subscribe for real-time access to research, visit https://www.researchfrc.com/website/subscribe/for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.