Fundamental Research Corp.
Investment Analysis for Intelligent Investors

29 April 2020

Kidoz Inc.
(TSXV: KIDZ)

2019 Revenue Exceeded Expectations by 16%

BUY
Current Price: C$0.33
Fair Value: C$1.00
Implied Upside: 203%
Risk*: 4

Sector/Industry: Mobile Games

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Highlights

- Kidoz generated 2019 revenue of $4.52 million – **exceeding our expectations by 16%.** The beat was primarily due to greater than expected ad revenue. (our forecast of $3.37 million versus actual of $3.83 million).
- Operating costs (excluding stock-based compensation) were $2.83 million – a YoY increase of 29%. **We had expected operating costs to be 5% lower.**
- EBITDA in 2019 was -$1.11 million (2018: -$2.68 million). Our calculation of EBITDA differs from Kidoz's reported EBITDA due to our inclusion of stock-based compensation and the inclusion/exclusion of other small line items. We forecasted EBITDA in 2019 to be -$1 million. Net losses in 2019 were $14.65 million (EPS: -$0.12) compared to $2.59 million (EPS: -$0.04) in 2018. We forecasted net losses in 2019 to be $1.02 million (EPS: -$0.01). The large discrepancy of our 2019 net loss forecast to actual results was primarily due to management's decision to report a **goodwill impairment of $13.88 million on the Kidoz Ltd. acquisition (due to COVID-19).**
- According to the 2019 Common Sense Census, which explores how kids in the United States ("U.S.") use media, they report **a large drop in the amount of time that tweens (8- to 12-year-olds) spend watching TV** – the percentage of tweens who have said that they enjoy watching TV "a lot" have dropped from 61% (in 2015) to 50% (in 2019).
- Smartphone ownership has increased from 2015 to 2019 across age groups 8 to 18. **One in five 8-year-olds (19%) had their own smartphone in 2019 versus 11% in 2015.**
- In the short-term, we believe that **COVID-19 will adversely impact Kidoz's revenue.** According to Influencer Marketing Hub, 69% of brands expect that they will decrease ad spend in 2020**.** eMarketer recently lowered its growth projections of global media ad spending by nearly 3% for 2020. Both Facebook (NASDAQ: FB) and Alphabet (NASDAQ: GOOGL) reported a significant reduction in ad revenue in March 2020 due to COVID-19. With that said, fundamentals of Kidoz remain intact and our mid/long-term outlook is positive.

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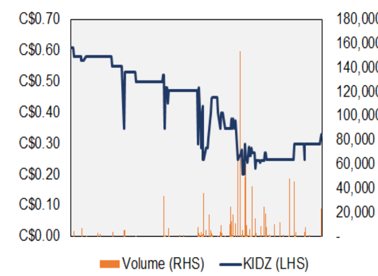
Equity Analyst

KIDZ Price and Volume (1-year)



	YTD	12M
Return	18%	-43%
TSXV	-20%	-23%

Company Data (as of 29 April 2020)

52-Week Range	C$0.20 - C$0.58
Shares O/S	131,124,989
Market Cap.	C$43.27 million
Current Yield	N/A
P/E (forward)	N/A
P/B	5.15x

Key Financial Data (FYE – DEC 31) (in US$)	2016	2017	2018	2019	2020E	2021E
Cash	60,190	478,397	641,536	967,212	693,658	1,662,065
Working Capital	13,896	345,184	662,573	2,192,505	1,571,164	2,554,788
Total Assets	129,093	557,853	769,633	9,786,640	7,919,837	8,675,839
LT Debt to Capital	928.0%	125.9%	0.0%	0.0%	0.0%	0.0%
Revenue	278,921	93,475	106,978	4,517,379	5,297,750	12,351,721
Net Income	(3,156,302)	(1,741,951)	(2,592,831)	(14,654,232)	(1,264,276)	379,430
EPS	-0.05	-0.03	-0.04	-0.12	-0.01	0.00

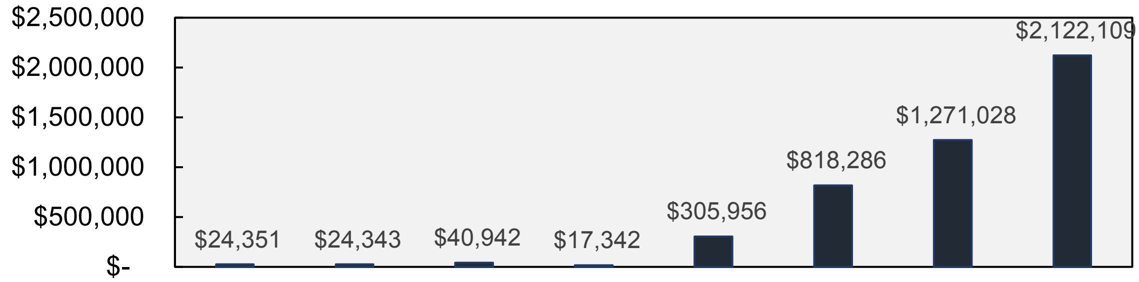
***See last page for important disclosures, rating and risk definitions. All figures in US$ unless otherwise specified.**

Revenue Exceeding Expectations

2019 revenue improved 4,123% YoY and 67% QoQ

Kidoz reported revenue of $4.52 million in 2019 – a YoY improvement of 4,123%. Revenue in Q4-2019 was $2.12 million – a QoQ improvement of 67%. 85% of the revenue in 2019 came from ad revenue, with the remaining 15% coming from content revenue (such as subscriptions of Rooplay, in-app purchases on social bingo sites and Rooplay Originals). The following shows revenue by quarter.

Q1-2018 to Q4-2019 Revenue



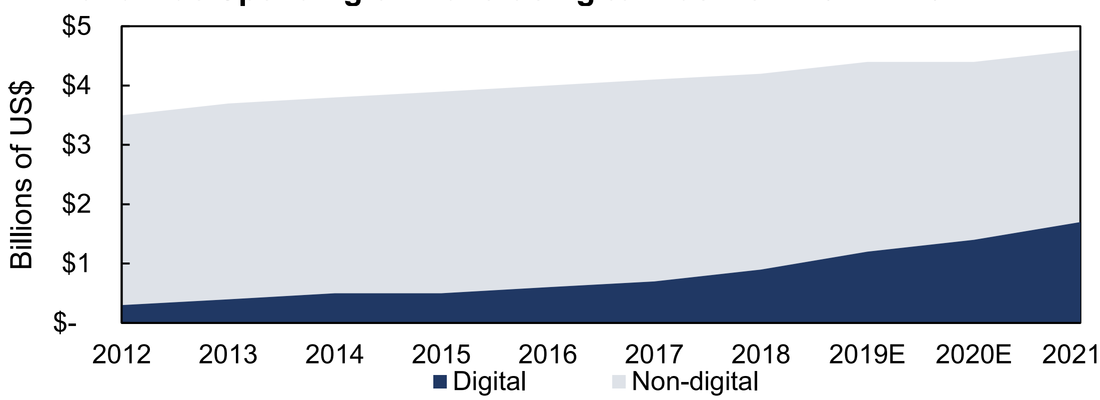
Quarter	Q1-2018	Q2-2018	Q3-2018	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019
Ad	-	-	-		230,862	579,052	1,165,609	1,853,391
Content	24,351	24,343	40,942	17,342	75,094	239,234	105,419	258,718
Total Revenue	**24,351**	**24,343**	**40,942**	**17,342**	**305,956**	**818,286**	**1,271,028**	**2,122,109**
QOQ Increase	-	**0%**	**68%**	**-58%**	**1,664%**	**167%**	**55%**	**67%**

Source: Company, FRC

Driver of revenue was the recent acquisition of Kidoz Ltd. and strong demand for kid-safe digital advertising

The significant YoY improvement in revenue was attributed to (1) the acquisition of Kidoz Ltd. in Q1-2019 and (2) strong demand for kid-safe digital advertising. The following chart shows the amount of money spent worldwide on advertising to kids through digital and non-digital formats.

Worldwide Spending on Advertising to Kids from 2012 – 2021



Note: Non-digital includes television, magazines, newspaper, radio and telemarketing

Source: PwC, FRC

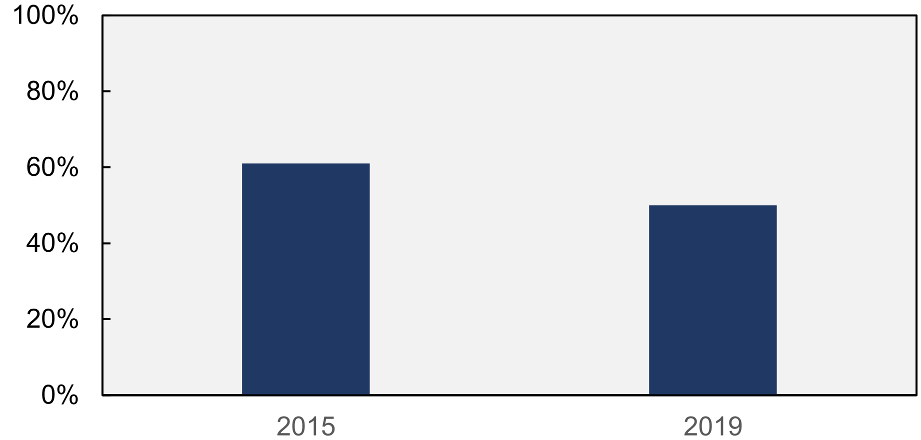
Worldwide kids digital advertising spending to grow at a CAGR of 22%

To reiterate from our previous update report, **worldwide kids digital advertising spending amounted to US$0.9 billion in 2018 and is expected to grow at a compound annual growth rate ("CAGR") of 22% to 2021.** We believe a key contributing factor to this strong CAGR is the fact that more kids are shifting time in front of a television ("TV") to digital devices such as tablets and smart phones.

A large drop in the number of tweens that enjoy watching TV

According to the 2019 Common Sense Census, which explores how kids in the United States ("U.S.") use media, there was a large drop in the amount of time that tweens (8- to 12-year-olds) spend watching TV – **the percentage of tweens who have said that they enjoy watching TV "a lot" has dropped from 61% (in 2015) to 50% (in 2019).**

Percentage of Tweens that Enjoy Watching TV (2015 versus 2019)



Source: Common Sense Media, FRC

Watching online videos is the most popular form of media enjoyment for tweens

Watching online videos and playing mobile games are currently among the top forms of media enjoyment by tweens. **Tweens that enjoy watching online videos "a lot" has increased from 46% (in 2015) to 67% (in 2019),** and is the most popular form of media enjoyment**.**

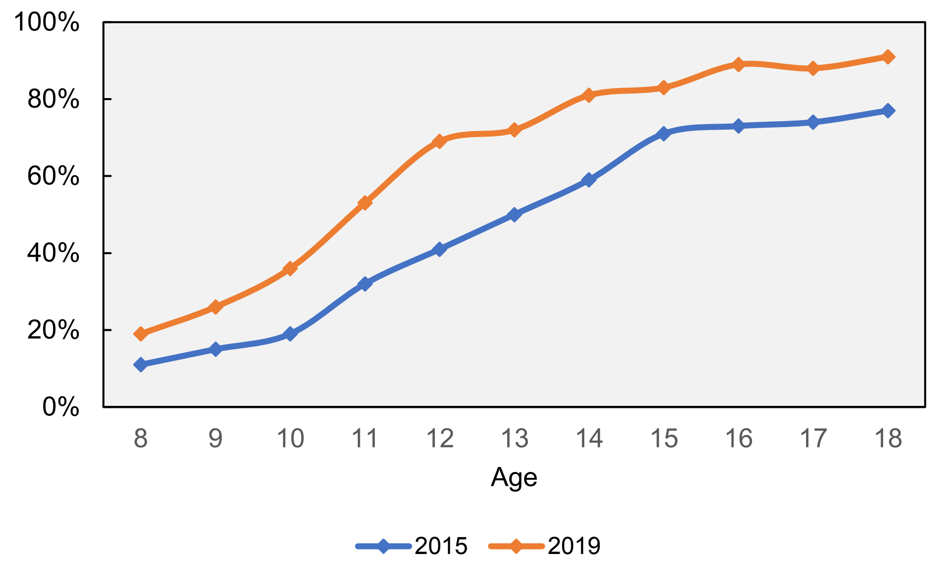
Tweens who enjoy … "a lot"	2015	2019	Delta
Watching online videos	**46%**	**67%**	**21%**
Listening to music	54%	55%	**1%**
Playing mobile games	51%	55%	**4%**
Playing video games on a console	52%	52%	**0%**
Watching TV	61%	50%	**-11%**
Reading for pleasure	41%	38%	**-3%**
Playing computer games	39%	37%	**-2%**
Writing for pleasure	13%	11%	**-2%**
Creating digital art	11%	10%	**-1%**
Using social media	13%	8%	**-5%**
Using virtual reality	-%	6%	**6%**
Coding	4%	4%	**0%**
Creating digital music	4%	4%	**0%**
Modifying video games	5%	4%	**-1%**

Source: Common Sense Media, FRC

Smartphone ownership has increased dramatically

Corresponding with the increased media enjoyment from online videos, music and mobile games, smartphone ownership has increased from 2015 to 2019, across age groups 8 to 18. **One in five 8-year-ols (19%) has their own smartphone in 2019 versus 11% in 2015.**

Smartphone Ownership Percentage by Age (2015 versus 2019)

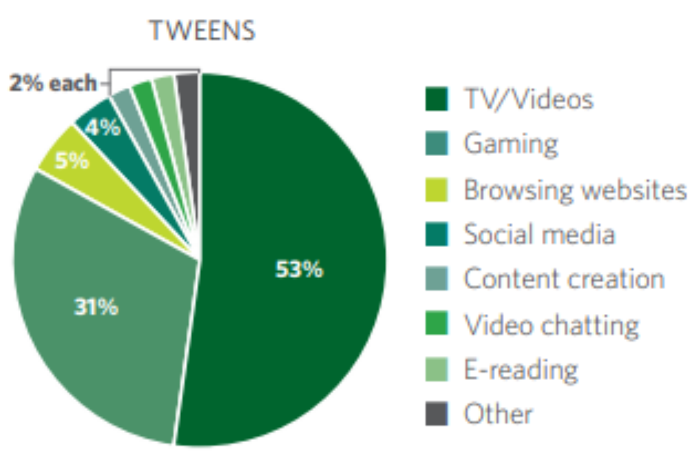


Source: Common Sense Media, FRC

Half of screen time is devoted to TV or videos

The primary use of screen time for tweens is watching TV/videos and playing games. Among tweens, approximately half (53%) of all screen time is devoted to TV or videos and 31% to gaming.

Proportion of Screen Time Devoted to Various Media Activities (2019)

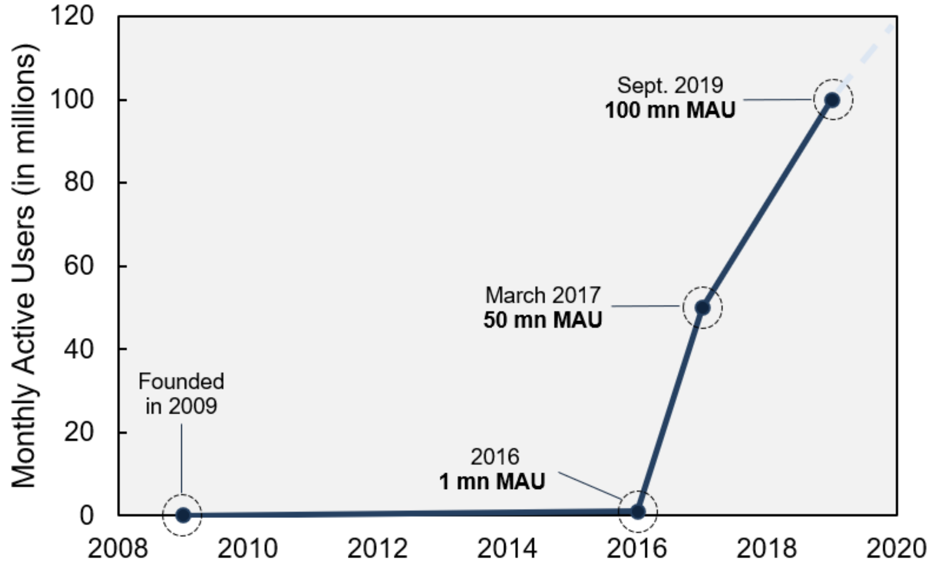


Source: Common Sense Media

The Kidoz network has MAU exceeding 100 million

Given that the KIDOZ content discovery network consists of over 3,800 kids' gaming / learning apps and videos that are COPPA and GDPR-K compliant, we see the network as being able to appeal to a substantial number of kid users. In fact, in a company statement dated September 2019, **the network reported over 100 million Monthly Active Users** ("MAU"). The following shows the growth in MAU in accordance with company press releases and third-party sources.

Growth in MAU on the KIDOZ network



Source: Company, VentureBeat, FRC

Kidoz has appointed numerous ad sales agents

In conjunction with the extreme growth in MAU, management has indicated that there has been a strong increase in the number of brands that are advertising on the KIDOZ network (exact brand growth figures undisclosed). **Over the past months, Kidoz has appointed numerous ad sales agents (Hub of Hype, PML and YDigital Media) to increase their brand outreach capabilities.**

Example of Brands that Advertise on the KIDOZ Network

Source: Company

Robust growth in the kids digital advertising industry expected

We have a positive long-term outlook (a discussion on the impact that COVID-19 will have on our short-term outlook is provided later) on the industry that Kidoz is operating in and are pleased with the company's growth trajectory. Due to COPPA and GDPR-K being strictly enforced by regulators in many countries, we believe that kids digital advertising is currently not extremely competitive – according to the Google Play Store, **Kidoz is among only 12 approved advertising networks for apps targeting kids.** Furthermore, robust growth in the industry is expected to allow for players, in the short and medium-term, to expand with the market instead of having to fiercely compete with each other.

2019 revenue beat our expectations by 16%

As mentioned earlier, Kidoz generated 2019 revenue of $4.52 million. **This exceeded our expectations by 16%.** The beat was primarily due to greater than expected ad revenue (our forecast of $3.37 million vs. actual of $3.83 million). Our revenue projections for Kidoz are presented later in this report.

2019 gross margin of 38%

Continuing our discussion on Kidoz's 2019 financials, gross margins were 38% in 2019; they had not reported cost of goods sold ("COGS") in the same period last year. Operating costs (excluding stock-based compensation) were $2.83 million – a YoY increase of 29%. **We had expected operating costs to be 5% lower.**

Margins	**2018**	**2019**
Gross	100.00%	38.48%
EBITDA	-2508.70%	-24.58%
EBIT	-2513.95%	-36.67%
Net (normalized)*	-2423.70%	-17.20%
Expenses / Sales	**2018**	**2019**
Selling & Marketing	329.8%	8.2%
Development	886.5%	22.4%
Stock Based Compensation ("SBC")	556.7%	0.4%
Compensation & Consultation	582.2%	16.2%
G & A	253.6%	15.9%
Total	**2608.7%**	**63.1%**

** excludes impairment of goodwill*

Source: Company, FRC

2019 EBITDA of -$1.11 million

2019 Net loss of $14.65 million

EBITDA in 2019 was -$1.11 million (2018: -$2.68 million). Our calculation of EBITDA differs from Kidoz's reported 2019 and 2018 EBITDA of -$0.78 million and -$2.01 million, respectively, due to our inclusion of SBC and the inclusion/exclusion of other small line items. We forecasted EBITDA in 2019 to be -$1 million. Net losses in 2019 were $14.65 million (EPS: -$0.12) compared to $2.59 million (EPS: -$0.04) in 2018. We forecasted net losses in 2019 of $1.02 million (EPS: -$0.01).

$13.88 million impairment charge on Kidoz Ltd.

The large discrepancy between our 2019 net loss forecast to actual results was primarily due to a **goodwill impairment of $13.88 million on the Kidoz Ltd. acquisition.** This write-down was not expected; management indicated that they decided to write-down this asset due to COVID-19. Accordingly, we have noticed that a number of other companies have written down their assets during this period.

	2018	2019	2019 (FRC Estimate)
EBITDA	-$2.68 mn	-$1.11 mn	-$1.00 mn
Net loss (normalized)*	-$2.59 mn	-$0.78 mn	-$1.02 mn
EPS (normalized)*	-$0.04	-$0.01	-$0.01

** excludes impairment of goodwill*
Source: Company, FRC

Improvement in FCF for 2019 compared to 2018

As a result of the improvement in operating cash flows, free cash flows ("FCF") were -$1.08 million in 2019, versus -$2.12 million over the comparable period last year.

Summary of Cash Flows	2018	2019
Cash Flows from Operations	(2,108,797)	(1,210,357)
Cash Flows from Investing	(12,149)	130,611
Cash Flows from Financing	2,284,085	1,405,422
Net Change	163,139	325,676
Free Cash Flows	**(2,120,946)**	**(1,079,746)**

Source: Company, FRC

Cash position of $0.97 million and $2.19 million in working capital

At the end of 2019, the company reported a cash position of $0.97 million, $2.19 million in working capital, and nil debt.

Liquidity Analysis	2018	2019
Cash	$641,536	$967,212
Working Capital	$662,573	$2,192,505
Current Ratio	8.30	2.72
Debt / Capital	0.0%	0.0%
LT Debt / Capital	0.0%	0.0%
EBIT Interest Coverage Ratio	n/a	n/a

Source: Company, FRC

Stock Options and Warrants: We estimate that the company has 3.20 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

Adjusting 2020 revenue forecast to $5.30 million and introducing our 2021 revenue forecast of $12.35 million

Despite revenue in 2019 beating our expectations, we are revising our revenue forecast for 2020 downwards to $5.30 million (previously $6.15 million). Although annualizing Q4-2019 revenue (assuming no seasonality) would result in an annual revenue forecast of $8.49 million, **we believe that COVID-19 will adversely affect ad revenue for Kidoz in 2020, which we discuss further below.** We are also introducing our 2021 revenue forecast of $12.35 million.

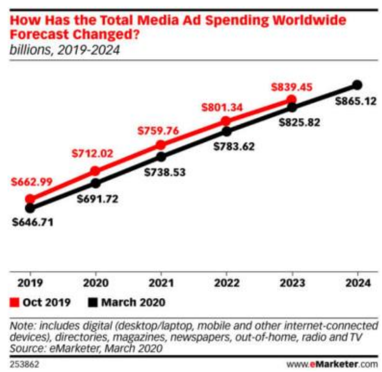
We are adjusting our 2020 earnings estimate from -$0.23 million (EPS: -$0.00) to -$1.26 million (EPS: -$0.01) and introducing our 2021 earnings estimate of $0.38 million (EPS: $0.00).

Impact of COVID-19 on Global Media Ad Spend

69% of brands expect that they will decrease ad spend in 2020 due to COVID-19

According to Influencer Marketing Hub, **69% of brands expect that they will decrease ad spend in 2020 due to COVID-19.** Additionally, eMarketer recently lowered its growth projections of global media ad spending by nearly 3% for 2020.

eMarketer lowered its growth projections of global media ad spending



Ad spending forecasts by eMarketer assumes that **COVID-19 will be contained in the coming months and there will be a rebound in H2-2020.** There is further downside on global ad spending should COVID-19 persist into the summer.

Alphabet Inc., on April 28, 2020, reported financial results for the quarter ended March 31, 2020. In their report, it was stated that ***"performance was strong during the first two months of the quarter, but then in March we experienced a significant slowdown in ad revenues."*** With that said, Alphabet has stated that they are currently seeing signs of stabilization in April.

Alphabet and Facebook experienced a significant slowdown in ad revenues in March 2020

Facebook Inc., on April 29, 2019, reported financial results for the quarter ended March 31, 2020. In their report, it was stated that they ***"experienced significant reduction in the demand for advertising … over the last three weeks of the first quarter of 2020."*** Similar to Alphabet, Facebook has stated that they are currently seeing signs of stabilization in April.

Although both Facebook and Alphabet alluded to ad revenue stabilization in April, they have expressed that the **outlook remains very uncertain**.

Impact of COVID-19 on Kidoz

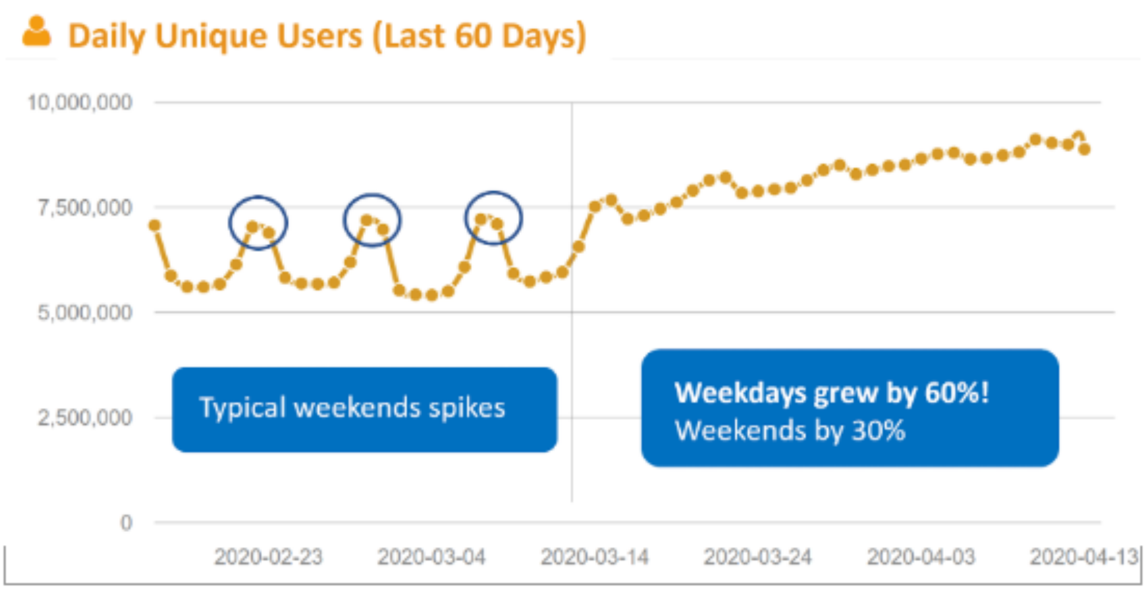
Engagement on the KIDOZ network has increased

In our discussions with management, it was indicated that a number of brands have held back on ad spending due to COVID-19. Although engagement on the KIDOZ network has increased dramatically (see chart below) due to kids being stuck at home, we believe brands are reluctant to commit to ad spending due to potential supply chain shocks from COVID-19.

Although digital media consumption has increased, advertisers are reluctant to spend

According to eMarketer, who looked into ad spending in China, *"despite the increase in digital media consumption in China as consumers try to keep themselves entertained and informed at home, advertisers are reluctant to spend what could be lost dollars if supply chain shocks prevent them from getting their products to market."*

Daily Unique Users on the KIDOZ Network



Source: Kidoz

COVID-19 is a black swan event

We acknowledge that COVID-19 is a black swan event and expect revenue of Kidoz over the medium term and onwards to rebound.

Valuation

Although COVID-19 has resulted in us revising our 2020 revenue forecast lower, our medium/long-term forecasts remain largely similar. Our long-term forecasts for the KIDOZ network continue to be based on (1) achieving 1 billion MAUs by 2025 and (2) increase in revenue per user per year ("RPUPY") of \$0.04-\$0.05 (our estimate) to \$0.10 RPUPY by 2025.

STATEMENTS OF OPERATIONS Revenues (in US\$)	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenue	**5,297,750**	**12,351,721**	**22,003,184**	**36,841,657**	**62,108,606**	**104,860,942**
Cost of Sales	2,909,325	6,785,328	11,258,410	19,331,911	33,120,671	56,497,893
Gross Profit	**2,388,425**	**5,566,393**	**10,744,774**	**17,509,745**	**28,987,935**	**48,363,049**
Expenses	**2,959,766**	**4,532,768**	**6,285,921**	**8,862,371**	**13,051,556**	**19,914,905**
Selling & Marketing	250,000	500,000	500,000	500,000	500,000	500,000
Development	1,115,445	1,226,990	1,349,689	1,484,657	1,633,123	1,796,435
Stock Based Compensation	47,670	59,588	74,484	93,105	116,382	145,477
Compensation & Consulation	805,465	966,558	1,159,870	1,391,844	1,670,212	2,004,255
Provision for Doubtful Accounts						
Bad Debt Expense						
G & A	788,856	1,839,221	3,276,362	5,485,870	9,248,220	15,614,214
EBITDA	**-619,011**	**974,037**	**4,384,369**	**8,554,269**	**15,819,997**	**28,302,667**
Amortization & Depreciation	645,265	594,607	550,281	511,496	477,559	447,864
EBIT	**-1,264,276**	**379,430**	**3,834,088**	**8,042,773**	**15,342,439**	**27,854,803**
Interest & Bank Charges						
Exchange Rate and Unusual Items						
EBT	**-1,264,276**	**379,430**	**3,834,088**	**8,042,773**	**15,342,439**	**27,854,803**
Unusual Gain or Loss						
Income Taxes			1,150,226	2,412,832	4,602,732	8,356,441
Net Earnings for the period	**-1,264,276**	**379,430**	**2,683,862**	**5,629,941**	**10,739,707**	**19,498,362**
EPS	-0.01	0.00	0.02	0.04	0.08	0.15
Shares	131,124,989	131,124,989	131,124,989	131,124,989	131,124,989	131,124,989

Source: FRC

DCF Valuation of \$1.00 per share

Maintaining our BUY rating

Our updated DCF valuation on Kidoz is \$1.00 per share versus our previous estimate of \$0.95 per share. The improvement is primarily attributed to changes in the USD-CAD exchange rate, which was partially offset by lower 2020 estimates. Had we used the exchange rate at the time of our last update report (November 2019), our valuation would be \$0.94 per share. We believe that the fundamentals of Kidoz have not changed and **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.
- COVID-19 has an impact on the company's top-line revenue that is not easily quantifiable.
- The company is operating in a highly competitive space.
- The average daily trading volume is relatively low as shares are thinly traded.

Maintaining our risk rating of 4

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

Appendix

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	2019	2020E	2021E
Total Revenue	**4,517,379**	**5,297,750**	**12,351,721**
Cost of Sales	2,778,911	2,909,325	6,785,328
Gross Profit	**1,738,468**	**2,388,425**	**5,566,393**
Expenses	**2,832,745**	**2,959,766**	**4,532,768**
Selling & Marketing	369,321	250,000	500,000
Development	1,014,041	1,115,445	1,226,990
Stock Based Compensation	15,890	47,670	59,588
Compensation & Consulation	732,241	805,465	966,558
Provision for Doubtful Accounts			
Bad Debt Expense			
G & A	717,142	788,856	1,839,221
EBITDA	**-1,110,167**	**-619,011**	**974,037**
Amortization & Depreciation	546,270	645,265	594,607
EBIT	**-1,656,437**	**-1,264,276**	**379,430**
Interest & Bank Charges	3,302		
Exchange Rate and Unusual Items	26,008		
EBT	**-1,627,127**	**-1,264,276**	**379,430**
Unusual Gain or Loss	-13,877,385		
Income Taxes	-850,280		
Net Earnings for the period	**-14,654,232**	**-1,264,276**	**379,430**
EPS	-0.12	-0.01	0.00
Shares	121,208,912	131,124,989	131,124,989

BALANCE SHEET (in US$)- YE Dec 31st	2019	2020E	2021E
Assets			
Cash	967,212	693,658	1,662,065
Accounts receivable	2,392,778	1,433,055	1,669,918
Prepaid expenses	109,914	71,653	166,992
Current Assets	**3,469,904**	**2,198,366**	**3,498,974**
Property and equipment	27,182	44,919	65,188
Other Assets			
Goodwill and identified intangible assets	6,289,554	5,676,553	5,111,676
Total Assets	**9,786,640**	**7,919,837**	**8,675,839**
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	1,251,684	601,487	918,471
Derivative			
Lease	25,715	25,715	25,715
Related parties			
Current Liabilities	**1,277,399**	**627,202**	**944,186**
Loans payable			
Lease	101,900	101,900	101,900
Shareholder's Equity			
Share Capital	48,935,213	48,982,883	49,042,471
Foreign Currency Translation	24,580	24,580	24,580
Deficit	-40,552,452	-41,816,728	-41,437,298
Total Liabilities & Shareholders' Equity	**9,786,640**	**7,919,837**	**8,675,839**

STATEMENTS OF CASH FLOWS (in US$)- YE Dec 31st	2019	2020E	2021E
Operating Activities			
Net earnings for the period	-14,654,232	-1,264,276	379,430
Items not involving cash			
Depreciation	546,270	645,265	594,607
Trophy Bingo Amortization			
Gain on sale of domain name/others			
Deferredincome tax recovery	-752,205		
Stock Based Compensation	15,890	47,670	59,588
Impairment	13,877,385		
Issuance of consultant stock options			
Loss on disposal of equipment / Others			
	-966,892	**-571,341**	**1,033,624**
Accounts Receivable	-963,129	959,723	-236,863
Other Assets			
Prepaid Expenses	25,004	38,261	-95,339
Accounts payable and accrued expenses	694,660	-650,197	316,984
Changes in working capital	-243,465	347,788	-15,218
Cash from (used in) operations	**-1,210,357**	**-223,554**	**1,018,406**
Financing activities			
Proceeds from secured borrowings, net	-278,063		
Private Placement	1,763,200		
Payment on operating lease liabitilies and ROU assets	-79,715		
Options / Warrants			
Cash provided by financing activities	**1,405,422**	**-**	**-**
Investing activities			
Acquisition of Equipment	-6,514	-50,000	-50,000
Proceeds from sale of subsidiary	183,264		
Goodwill / Others	-46,139		
Cash used in investing activities	**130,611**	**-50,000**	**-50,000**
Increase (decrease) in cash	**325,676**	**-273,554**	**968,406**
Cash beginning of period	641,536	967,212	693,658
Cash end of period	**967,212**	**693,658**	**1,662,065**

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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