

Kidoz Inc.
(TSXV: KIDZ / OTC: KDOZF)

Blows Past Our Estimates / Raising Fair Value

BUY

Current Price: C\$0.94

Fair Value: C\$2.28

Risk*: 4

Sector/Industry: Mobile Games

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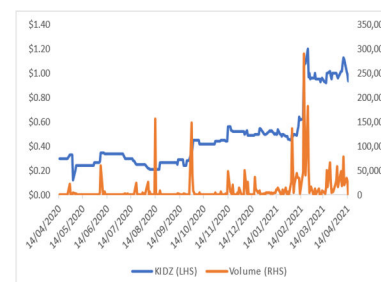
Highlights

- **2020 revenue was \$7.15M, up 58% YoY, beating our estimates by 20%.** KIDZ also outperformed our EBITDA and net income estimates by 417% and 120%, respectively.
- In 2020, gross margins were 47% (up from 38% in 2019), and EBITDA was \$0.6M (up 157% YoY). 2020 was the **first year of profitable operations, with net income of \$104k (EPS: \$0.00), up 101% YoY.** SG&A margins also improved significantly (38% in 2020 vs 63% in 2019).
- KIDZ also had a positive free cash flow of \$235k in 2020 (up 122% YoY). **The company has a healthy balance sheet with \$1.2M in cash, and minimal debt.** Additionally, we estimate that KIDZ can raise up to \$3.6M from all in-the-money options. Shares are up 81% since our previous report in November 2020.
- **The company currently reaches over 300M kids per month with its kids-safe ads.** KIDZ has been transitioning into a programmatic ad technology (where machine learning is used to buy and optimise digital campaigns), allowing for better utilization and monetization of ad space. Management expects to launch its programmatic advertising technology this quarter.
- Based on the strong performance, **we are raising our long-term market share assumption for KIDZ to 5% of Google's (NASDAQ: GOOGL) AdMob (previously 4%).**
- Global digital ad spending is estimated to reach \$491B in 2025 (up 38% from 2020), and **mobile devices (where KIDZ operates) are expected to continue to gain more market share,** reaching 65% (currently at 55%) of all digital ad spending in 2025 (Source: Statista).
- We believe KIDZ, with its contextual ad model, is attuned to the industry trend of data privacy and kids-safe content. Adopting the programmatic ad tech should enable it to monetize its audience at a higher rate, and stay competitive. **KIDZ's long-term success is highly dependent on its ability to attract brands/advertisers.**

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Analyst

KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	71%	213%
TSXV	4%	109%

Company Data

52-Week Range	C\$0.13 - C\$1.25
Shares O/S	131,124,989
Market Cap.	C\$123M
Current Yield	N/A
P/E (forward)	N/A
P/B	14.22x

Key Financial Data (FYE - Dec 31)

(US\$)	2015	2016	2017	2018	2019	2020	2021E	2022E
Cash	570,086	60,190	478,397	641,536	967,212	1,226,045	3,510,890	6,686,229
Working Capital	454,447	13,896	345,184	662,573	2,192,505	3,071,545	5,014,407	8,897,725
Total Assets	1,129,526	129,093	557,853	769,633	9,786,640	10,969,129	11,249,474	14,451,678
LT Debt to Capital	0.0%	928.0%	125.9%	0.0%	0.0%	0.5%	0.0%	0.0%
Revenues	111,610	278,921	93,475	106,978	4,517,379	7,148,029	12,645,105	19,722,167
Net Income	(2,965,682)	(3,156,302)	(1,741,951)	(2,592,831)	(14,654,232)	103,971	1,921,256	3,186,153
EPS	-0.05	-0.05	-0.03	-0.04	-0.12	0.00	0.01	0.02

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

Financials

Revenue increased 58% YoY, beating our estimate by 20%

2020 was the first profitable year

Gross and EBITDA margins improved significantly in 2020

Positive free cash flows of \$235k in 2020

Healthy balance sheet with minimal debt

Can raise up to \$3.6M from in-the-money options

Statement of Operations			
Y/E Dec 31	2019	2020	YoY
Revenue	4,517,379	7,148,029	58%
COGS	2,778,911	3,800,114	37%
SG&A Expense	2,832,745	2,555,464	-10%
EBITDA	(1,110,167)	633,568	157%
EBITDA (adjusted)	(1,094,277)	792,451	172%
Net Profit (Loss)*	(14,654,232)	103,971	101%
EPS	(0.12)	0.00	101%

Margins	2019	2020 Actual	2020 Estimates
Gross	38%	47%	49%
EBITDA	-25%	8.9%	2.1%
EBIT	-37%	0.2%	-8.8%
Net	-324%	1.5%	-8.8%
SG&A	63%	38%	47%
Share-based	0.4%	2.2%	2.1%

Summary of Cash Flows	2019	2020	YoY
Operating	(1,210,357)	256,978	121%
Investing	130,611	(21,537)	-116%
Financing	1,405,422	23,392	-98%
Net	325,676	258,833	-21%
Free Cash Flows to Firm (FCF)	(1,079,746)	235,441	122%

Estimate Vs Actual	2020E	2020A	Difference
Revenue	\$5,968,750	\$7,148,029	20%
EBITDA	\$122,526	\$633,568	417%
Net Profit (Loss)	-\$522,739	\$103,971	120%

Liquidity & Capital Structure	2019	2020
Cash	\$967,212	\$1,226,045
Working Capital	\$2,192,505	\$3,071,545
Current Ratio	2.72	2.41
Total Debt	\$0	\$47,089
Total Debt / Capital	0%	1%

Source: Company Filings, FRC

Stock Options and Warrants

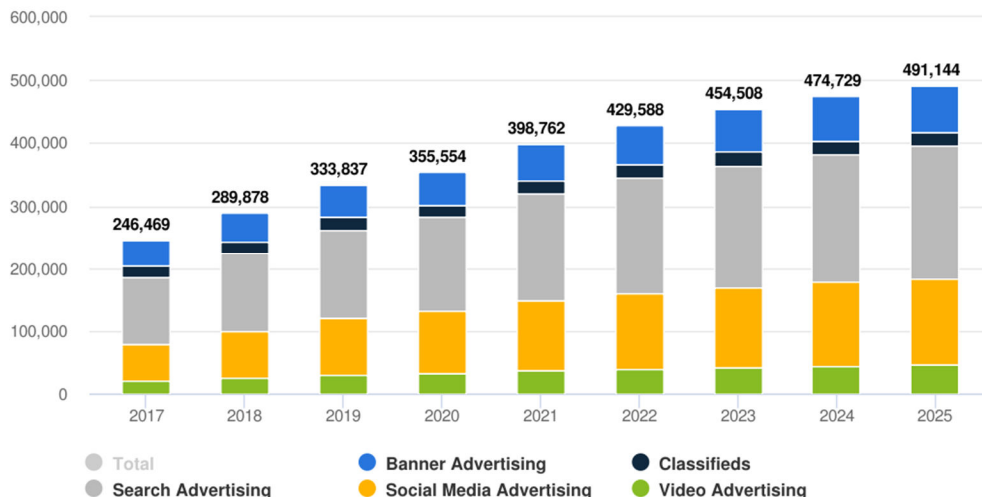
At the end of 2020, KIDZ had 5.88M options (weighted average exercise price of \$0.39), and nil warrants outstanding. All the options are currently in-the-money, implying a potential to raise up to \$3.6M.

Market Update

Global digital ad spending is expected to reach \$491B in 2025, from \$356B in 2020.

Digital ad spending projected to reach \$491B in 2025 (up 38% from 2020)

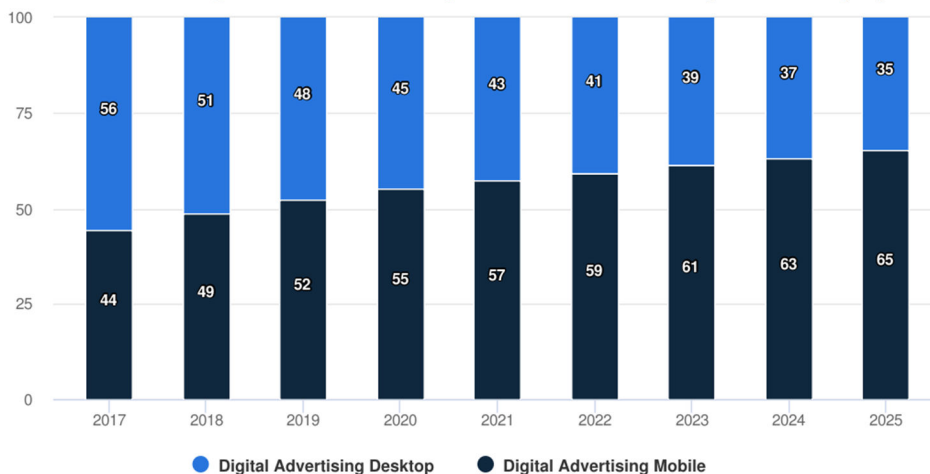
Global Digital Advertising – Ad Spending by Segment (US\$, M)



Source: Statista

Kidoz operates in the mobile ad segment, which has been steadily increasing its market share. **By 2025, 65% of all ads will be on mobile devices.**

Global Digital Advertising – Platform Composition (%)



Source: Statista

Mobile Ad platforms are gaining market share

Growth Strategy

The following are key to KIDZ's success:

- In order to increase ad revenues, the company is transitioning into a programmatic ad technology. We believe this will allow KIDZ to stay competitive in the ad network space.
- KIDZ' core strategy remains the same, which is to onboard popular publishers/apps to increase audience/reach. This strategy allows the company to quickly expand its reach, with minimal marketing budget.

Raising both short-term and long-term projections

- By consistently expanding its reach, KIDZ will be able to keep attracting brands/advertisers to use its network, especially since there are not many kid-safe ad networks in the market.

FRC Projections

Kidoz	2021E	2022E	2023E	2024E	2025E
Revenues @ \$2k per app	\$11,576,355	\$18,522,167	\$53,714,286	\$94,000,000	\$141,000,000
Apps	5,788	9,261	26,857	47,000	70,500
	Old 2021E	New 2021E	Introducing 2022E		
Revenue	\$12,368,750	\$12,645,105	\$19,722,167		
EBITDA	\$1,888,343	\$2,515,863	\$5,101,927		
Net Profit (Loss)	\$1,293,737	\$1,921,256	\$3,186,153		
EPS	\$0.01	\$0.01	\$0.02		

Source: FRC

Valuation

Based on the revised revenue estimates presented above, our Discounted Cash Flow (DCF) model generated a fair value estimate of C\$2.28 (previously C\$1.08)

Revised fair value estimate of C\$2.28 (previously C\$1.08)

DCF Valuation	2021E	2022E	2025E	Terminal
Funds Flow from Operations (US\$)	2,673,370	3,933,318	40,121,083	
Change in Working Capital (US\$)	(239,830)	(707,979)	(7,682,757)	
Cash from Operations (US\$)	2,433,540	3,225,339	32,438,326	
CAPEX (US\$)	(50,000)	(50,000)	(50,000)	
Free Cash Flow (US\$)	2,383,540	3,175,339	32,388,326	
Present Value (US\$)	2,182,017	2,583,885	18,510,324	200,690,881
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$243,972,211			
Cash - Debt (US\$)	\$1,178,956			
Fair Value (US\$)	\$245,151,167			
Shares O/S*	134,667,037			
Value per Share (C\$)	\$2.28			

Source: FRC

We believe the pandemic is causing kids to spend more time online, be it for education or entertainment, and the potential market size for KIDZ has increased significantly over this period. In our view, online learning platforms will remain in some capacity post-pandemic, as everyone has been accustomed to the convenience of using them over the past year. With an increasing user-base, and regulatory emphasis on data privacy and safe advertisement for children, we believe KIDZ's solution is well positioned for growth. **We are maintaining our BUY rating, and raising our fair value estimate to C\$2.28 (previously C\$1.08).**

Risks

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

Risk rating of 4

- Any unfavorable changes in regulations 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.

We are maintaining our risk rating of 4.

Appendix

INCOME STATEMENT			
(in US\$) - YE Dec 31st	2020	2021E	2022E
Total Revenue	7,148,029	12,645,105	19,722,167
Cost of Sales	3,800,114	6,687,620	10,361,970
Gross Profit	3,347,915	5,957,485	9,360,197
Expenses			
Selling & Marketing	397,948	400,000	400,000
Development	1,149,902	1,394,306	1,533,737
Stock Based	158,883	157,508	196,884
Compensation, Salaries & Provision for Doubtful Bad Debt Expense	478,906	776,052	1,164,078
G & A	528,708	713,756	963,570
EBITDA	633,568	2,515,863	5,101,927
Amortization & Depreciation	618,699	594,607	550,281
EBIT	14,869	1,921,256	4,551,647
Interest & Bank Charges	1,003		
Exchange Rate and Unusual Items	32,856		
EBT	48,728	1,921,256	4,551,647
Unusual Gain or Loss			
Income Taxes	-55,243		1,365,494
Net Earnings for the period	103,971	1,921,256	3,186,153
EPS	0.00	0.01	0.02
Shares	131,124,989	131,124,989	131,124,989

BALANCE SHEET			
(in US\$)- YE Dec 31st	2020	2021E	2022E
Assets			
Cash	1,226,045	3,510,890	6,686,229
Accounts receivable	3,933,540	2,382,994	2,808,059
Prepaid expenses	89,970	178,725	280,806
Current Assets	5,249,555	6,072,609	9,775,094
Property and equipment	21,839	65,188	87,674
Other Assets			
Goodwill, intangible assets, and other	5,697,735	5,111,676	4,588,910
Total Assets	10,969,129	11,249,474	14,451,678
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	2,147,927	1,032,487	851,654
Derivative			
Lease	30,083	25,715	25,715
Related parties			
Current Liabilities	2,178,010	1,058,202	877,369
Loans payable	47,089		
Lease	73,835	101,900	101,900
Shareholder's Equity			
Share Capital	49,094,096	49,218,727	49,415,611
Foreign Currency Translation	24,580	24,580	24,580
Deficit	-40,448,481	-39,153,934	-35,967,782
Total Liabilities & Shareholders' Equity	10,969,129	11,249,474	14,451,678

STATEMENTS OF CASH FLOWS			
(in US\$)- YE Dec 31st	2020	2021E	2022E
Operating Activities			
Net earnings for the period	103,971	1,921,256	3,186,153
Items not involving cash			
Depreciation	618,699	594,607	550,281
Gain on sale of domain name/others			
Deferred income tax recovery			
Stock Based Compensation	158,883	157,508	196,884
Impairment			
	881,553	2,673,370	3,933,318
Accounts Receivable	-1,540,762	-343,806	-425,065
Prepaid Expenses	19,944	-91,331	-102,081
Accounts payable and accrued expenses	896,243	195,307	-180,833
Changes in working capital	-624,575	-239,830	-707,979
Cash from (used in) operations	256,978	2,433,540	3,225,339
Financing activities			
Proceeds from secured borrowings, net	47,089		
Private Placement			
Payment on operating lease liabilities and ROU assets	-23,697		
Options / Warrants			
Cash provided by financing activities	23,392	-	-
Investing activities			
Acquisition of equipment/subsidiary	-3,212	-50,000	-50,000
Proceeds from sale of subsidiary			
Goodwill / Others	-18,325		
Cash used in investing activities	-21,537	-50,000	-50,000
Increase (decrease) in cash	258,833	2,383,540	3,175,339
Cash beginning of period	967,212	1,127,350	3,510,890
Cash end of period	1,226,045	3,510,890	6,686,229

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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