

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

**BUY**  
Current Price: C\$0.85  
Fair Value: C\$2.23  
Risk\*: 4

**Introducing a Programmatic Ad Platform This Quarter**

**Sector/Industry: Mobile Games**

[Click here for more research on the company and to share your views](#)

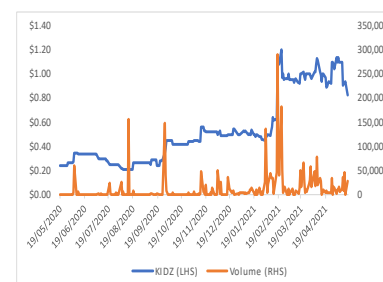
**Highlights**

- **Q1-2021 revenue was \$1.6M, up 58% YoY, but below our expectations.** Q1-2021 revenue is 14% of our revised 2021 (full-year) revenue estimate, and in line with last year's results.
- Gross margins were 44% in Q1-2021 (vs 45% in Q1-2020), and EBITDA was -\$150k (improved from -\$254k in Q1-2020). SG&A margins also improved significantly (down YoY from 71% to 54%).
- KIDZ generated positive free cash flows of \$391k in Q1-2021 vs -\$400k in Q1-2020.
- **Healthy balance sheet with \$1.6M in cash, and minimal debt.** Additionally, we estimate that KIDZ can raise up to \$2.7M from all in-the-money options.
- **The company reaches over 300M kids per month with its kids-safe ads.** Management is on schedule to introduce their programmatic ad platform (where machine learning is used to buy and optimise digital campaigns) as planned this quarter. This will allow for better utilization and monetization of ad space.
- **We maintain that KIDZ has potential to stay competitive in the kids' ad network space.** KIDZ's long-term success is highly dependent on its ability to attract brands/advertisers.

**Sid Rajeev, B.Tech, CFA, MBA**  
Head of Research

**Iftekhar Mahmud, MBA, MSc**  
Analyst

**KIDZ Price and Volume (1-year)**



	YTD	12M
KIDZ	51%	239%
TSXV	7%	78%

**Company Data**

52-Week Range	C\$0.20 - C\$1.25
Shares O/S	131,124,989
Market Cap.	C\$111M
Current Yield	N/A
P/E (forward)	N/A
P/B	13x

**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	3,109,629	5,982,261
Working Capital	454,447	13,896	345,184	662,573	2,192,505	3,071,545	4,310,440	8,193,758
Total Assets	1,129,526	129,093	557,853	769,633	9,786,640	10,969,129	10,545,506	13,747,711
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	11,080,732	19,722,167
Net Income	(2,965,682)	(3,156,302)	(1,741,951)	(2,592,831)	(14,654,232)	103,971	1,217,289	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 in Q1; 2020 (full-year) revenue was also up 58%

Gross margins stayed relatively flat YoY, while EBITDA and net margins improved significantly

Positive free cash flows of \$391k in Q1-2021

Healthy balance sheet with minimal debt

North America was the primary revenue driver (up 135% YoY)

Can raise up to \$2.68M from in-the-money options

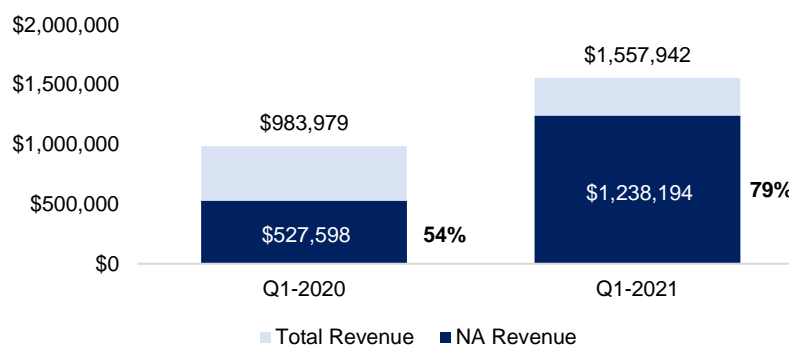
Statement of Operations			
Y/E Dec 31	Q1-2020	Q1-2021	YoY
Revenue	983,979	1,557,942	58%
COGS	539,804	872,901	62%
SG&A Expense	698,338	834,939	20%
<b>EBITDA</b>	<b>(254,163)</b>	<b>(149,898)</b>	
<b>Net Profit (Loss)</b>	<b>(403,924)</b>	<b>(347,044)</b>	14%
EPS	(0.00)	(0.00)	14%

Margins		
	Q1-2020	Q1-2021
<b>Gross</b>	<b>45%</b>	<b>44%</b>
EBITDA	-26%	-10%
EBIT	-40%	-20%
<b>Net</b>	<b>-41%</b>	<b>-22%</b>
<b>SG&amp;A</b>		
Share-based	0.1%	4.9%

Summary of Cash Flows		
	Q1-2020	Q1-2021
Operating	(400,604)	393,060
Investing	(4,909)	(2,265)
Financing	(16,187)	(5,248)
<b>Net</b>	<b>(421,700)</b>	<b>385,547</b>
<b>Free Cash Flows to Firm (FCF)</b>	<b>(405,513)</b>	<b>390,795</b>

Liquidity & Capital Structure		
	Q1-2020	Q1-2021
<b>Cash</b>	<b>\$545,512</b>	<b>\$1,611,592</b>
Working Capital	\$1,927,546	\$2,951,465
Current Ratio	3.38	3.49
Total Debt	\$0	\$47,650
Total Debt / Capital	0.0%	0.6%

## Segmented Revenue



Source: Company Filings, FRC

## Stock Options and Warrants

At the end of Q1-2021, KIDZ had 6.8M options (weighted average exercise price of \$0.39), and nil warrants outstanding. All options are currently in-the-money, implying potential to raise up to \$2.68M.

## FRC Projections

	Old 2021E	New 2021E	Old 2022E	New 2022E
Revenue	\$12,645,105	<b>\$11,080,732</b>	\$19,722,167	<b>\$19,722,167</b>
EBITDA	\$2,515,863	<b>\$1,811,895</b>	\$5,101,927	<b>\$5,101,927</b>
Net Profit (Loss)	\$1,921,256	<b>\$1,217,289</b>	\$3,186,153	<b>\$3,186,153</b>
EPS	\$0.01	<b>\$0.01</b>	\$0.02	<b>\$0.02</b>

Source: FRC

As our 2021 revenue forecast was overly optimistic, we are lowering our 2021 projections

## Valuation

DCF Valuation	2021E-Q1	2022E	2025E	Terminal
Funds Flow from Operations (US\$)	2,079,989	3,933,318	40,121,083	
Change in Working Capital (US\$)	(440,770)	(1,010,685)	(7,682,757)	
Cash from Operations (US\$)	1,639,219	2,922,632	32,438,326	
CAPEX (US\$)	(47,735)	(50,000)	(50,000)	
Free Cash Flow (US\$)	1,591,484	2,872,632	32,388,326	
Present Value (US\$)	1,478,536	2,372,232	18,784,865	203,667,487
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$246,604,937			
Cash - Debt (US\$)	\$1,178,956			
Fair Value (US\$)	\$247,783,893			
Shares O/S*	134,705,600			
<b>Value per Share (C\$)</b>	<b>\$2.23</b>			

Source: FRC

Revised fair value estimate of C\$2.23 (previously C\$2.27); valuation was impacted as we lowered our 2021 EPS forecast, and weakness in the US\$ (1.21 vs 1.26)

**We are maintaining a BUY rating, with a revised fair value estimate of C\$2.23 (previously C\$2.27).** The next key catalyst will be if, and when, the programmatic ad platform results in improved utilization and monetization of ad space.

## Risks

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

- Unfavorable changes in regulations.
- Ability to attract publishers and brands will be key to long-term growth.
- The company is operating in a highly competitive space.
- Exchange rate.

**We are assigning a risk rating of 4 (Speculative).**

Risk rating of 4

### Appendix

<b>INCOME STATEMENT (in US\$) - YE Dec 31st</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
<b>Total Revenue</b>	<b>7,148,029</b>	<b>11,080,732</b>	<b>19,722,167</b>
Cost of Sales	3,800,114	5,827,215	10,361,970
<b>Gross Profit</b>	<b>3,347,915</b>	<b>5,253,517</b>	<b>9,360,197</b>
<b>Expenses</b>			
Selling & Marketing	397,948	400,000	400,000
Development	1,149,902	1,394,306	1,533,737
Stock Based Compensation, Salaries & Provision for Doubtful Bad Debt Expense	158,883	157,508	196,884
G & A	478,906	776,052	1,164,078
<b>EBITDA</b>	<b>633,568</b>	<b>1,811,895</b>	<b>5,101,927</b>
Amortization & Depreciation	618,699	594,607	550,281
<b>EBIT</b>	<b>14,869</b>	<b>1,217,289</b>	<b>4,551,647</b>
Interest & Bank Charges	1,003		
Exchange Rate and Unusual Items	32,856		
<b>EBT</b>	<b>48,728</b>	<b>1,217,289</b>	<b>4,551,647</b>
Unusual Gain or Loss			
Income Taxes	-55,243		1,365,494
<b>Net Earnings for the period</b>	<b>103,971</b>	<b>1,217,289</b>	<b>3,186,153</b>
EPS	0.00	0.01	0.02
Shares	131,124,989	131,124,989	131,124,989

<b>BALANCE SHEET</b>			
<b>(in US\$)- YE Dec 31st</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
<b>Assets</b>			
Cash	1,226,045	3,109,629	5,982,261
Accounts receivable	3,933,540	2,101,407	2,808,059
Prepaid expenses	89,970	157,606	280,806
<b>Current Assets</b>	<b>5,249,555</b>	<b>5,368,641</b>	<b>9,071,126</b>
Property and equipment	21,839	65,188	87,674
Goodwill, intangible assets, and other	5,697,735	5,111,676	4,588,910
<b>Total Assets</b>	<b>10,969,129</b>	<b>10,545,506</b>	<b>13,747,711</b>
<b>Liabilities &amp; Shareholders' Equity</b>			
Accounts payables & accrued liabilities	2,147,927	1,032,487	851,654
Lease	30,083	25,715	25,715
<b>Current Liabilities</b>	<b>2,178,010</b>	<b>1,058,202</b>	<b>877,369</b>
Loans payable	47,089		
Lease	73,835	101,900	101,900
<b>Shareholder's Equity</b>			
Share Capital	49,094,096	49,218,727	49,415,611
Foreign Currency Translation	24,580	24,580	24,580
Deficit	-40,448,481	-39,857,902	-36,671,749
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>10,969,129</b>	<b>10,545,506</b>	<b>13,747,711</b>

<b>STATEMENTS OF CASH FLOWS</b>			
<b>(in US\$)- YE Dec 31st</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
<b>Operating Activities</b>			
Net earnings for the period	103,971	1,217,289	3,186,153
<b>Items not involving cash</b>			
Depreciation	618,699	594,607	550,281
Realized foreign exchange loss			
Amortization of operating lease ROU assets			
Stock Based Compensation	158,883	157,508	196,884
Impairment			
	<b>881,553</b>	<b>1,969,403</b>	<b>3,933,318</b>
Accounts Receivable	-1,540,762	-62,219	-706,652
Prepaid Expenses	19,944	-70,212	-123,200
Accounts payable and accrued expenses	896,243	195,307	-180,833
<b>Changes in working capital</b>	<b>-624,575</b>	<b>62,876</b>	<b>-1,010,685</b>
<b>Cash from (used in) operations</b>	<b>256,978</b>	<b>2,032,279</b>	<b>2,922,632</b>
<b>Financing activities</b>			
Proceeds from secured borrowings, net	47,089		
Payment on operating lease liabilities and ROU assets	-23,697		
<b>Cash provided by financing activities</b>	<b>23,392</b>	<b>-</b>	<b>-</b>
<b>Investing activities</b>			
Acquisition of equipment/subsidiary	-3,212	-50,000	-50,000
<b>Cash used in investing activities</b>	<b>-21,537</b>	<b>-50,000</b>	<b>-50,000</b>
<b>Increase (decrease) in cash</b>	<b>258,833</b>	<b>1,982,279</b>	<b>2,872,632</b>
Cash beginning of period	967,212	1,127,350	3,109,629
<b>Cash end of period</b>	<b>1,226,045</b>	<b>3,109,629</b>	<b>5,982,261</b>

**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 an initial report and three updates. Coverage cannot 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 (7%), SELL / SUSPEND (24%).

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.