

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

BUY

Current Price: C\$0.70

Fair Value: C\$2.21

Risk*: 4

Ad Revenue up 196% YoY / Entering China

Sector/Industry: Ad Tech

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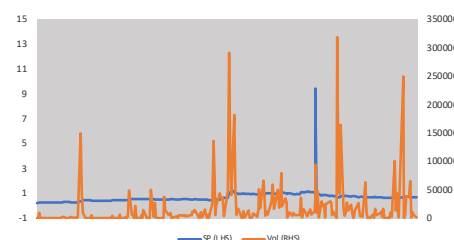
Highlights

- Q2-2021 revenue was \$2.18M, up 196% YoY, and **inline with our expectations**. KIDZ had 256M monetized impressions in Q2, up 33% QoQ.
- Adjusted EBITDA of \$52k in Q2-2021 vs -\$0.2M in Q2-2020. **Positive free cash flows** of \$308k in Q2-2021 vs -\$137k in Q2-2020. EBITDA and cash flows were inline, but EPS fell below expectations due to higher than expected one-time expenses.
- Healthy balance sheet** with \$1.5M in cash, and minimal debt. KIDZ can raise up to \$2.65M from all in-the-money options.
- The outlook for global digital ad spending remains strong. Global spending is expected to grow from \$378B in 2020 (51% of total media spending), to **\$646B by 2024** (68%) - (Source: Statista).
- The company **recently announced partnerships** with two popular ad mediation platforms to enter China. Both companies have integrated the KIDOZ SDK into their mediation solution for mobile apps.
- We are **expecting a record Q3**. Q3 will also provide us insights on KIDZ's ability to penetrate China.

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Head of Research

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Equity Analyst

KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	35%	159%
TSXV	-3%	16%

Company Data

52-Week Range	C\$0.24 - C\$1.25
Shares O/S	131.4M
Market Cap.	C\$95M
Current Yield	N/A
P/E (forward)	N/A
P/B	11.5x

Key Financial Data (FYE - Dec 31)	2019	2020	2021E	2022E
Cash (US\$)	967,212	1,226,045	2,620,837	5,150,779
Working Capital	2,192,505	3,071,545	3,538,528	7,241,243
Total Assets	9,786,640	10,969,129	9,997,451	12,812,278
LT Debt to Capital	0.0%	0.5%	0.0%	0.0%
Revenues	4,517,379	7,148,029	11,024,462	19,272,167
Net Income	(14,654,232)	103,971	333,279	2,905,868
EPS	-0.12	0.00	0.00	0.02

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

Financials

Revenue increased 196% YoY in Q2

Adj. EBITDA also improved YoY

Net loss was higher due to stock-based compensation, and non-cash expenses related to certain stock awareness programs

Gross margins increased QoQ and YoY due to stronger revenue

FCF up 125% YoY in H1-2021

Healthy balance sheet, with minimal debt

74% of revenue came from North America

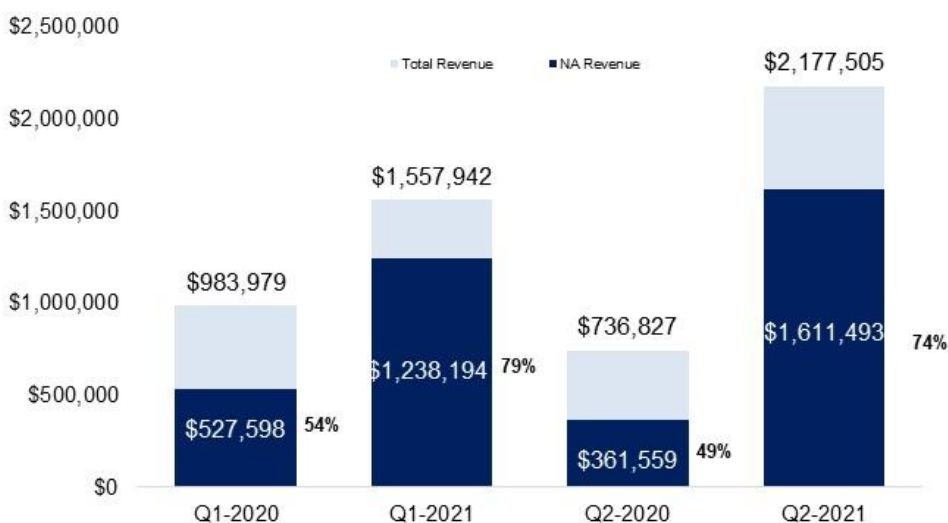
Statement of Operations									
Y/E Dec 31	Q1-2020	Q1-2021	YoY	Q2-2020	Q2-2021	YoY	6M-2020	6M-2021	YoY
Revenue	983,979	1,557,942	58%	736,827	2,177,505	196%	1,720,806	3,735,447	117%
COGS	539,804	872,901	62%	411,058	1,153,172	181%	950,862	2,026,073	113%
SG&A Expense	698,338	834,939	20%	528,202	1,257,744	138%	1,221,017	2,285,268	87%
EBITDA	(254,163)	(149,898)		(212,282)	(425,996)		(451,073)	(575,894)	
EBITDA (adjusted)	(253,622)	(72,877)	71%	(202,433)	52,446	126%	(440,683)	(20,431)	95%
Net Profit (Loss)	(403,924)	(347,044)	14%	(361,399)	(545,086)	-51%	(765,323)	(892,121)	-17%
EPS	(0.003)	(0.003)		(0.003)	(0.004)		(0.006)	(0.007)	

Margins	Q1-2020	Q1-2021	Q2-2020	Q2-2021	6M-2020	6M-2021
Gross	45%	44%	44%	47%	45%	46%
EBITDA	-26%	-10%	-29%	-20%	-26%	-15%
EBIT	-40%	-20%	-50%	-26%	-44%	-24%
Net	-41%	-22%	-49%	-25%	-44%	-24%
SG&A	71%	54%	73%	53%	71%	54%
Share-based	0.1%	4.9%	1.3%	8.8%	0.6%	7.2%

Summary of Cash Flows	Q1-2020	Q1-2021	6M-2020	6M-2021
Operating	(400,604)	393,060	144,085	313,830
Investing	(4,909)	(2,265)	(7,108)	(5,580)
Financing	(16,187)	(5,248)	11,143	19,331
Net	(421,700)	385,547	148,120	327,581
Free Cash Flows to Firm (FCF)	(405,513)	390,795	136,977	308,250

Liquidity & Capital Structure	Q1-2020	Q1-2021	Q2-2020	Q2-2021
Cash	545,512	1,611,592	1,115,332	1,553,626
Working Capital	1,927,546	2,951,465	1,753,820	2,948,809
Current Ratio	3.38	3.49	3.68	2.88
Total Debt	-	47,650	29,321	48,403
Total Debt / Capital	0.0%	0.6%	0.4%	0.6%

Segmented Revenue



Source: Company Filings, FRC

Can raise up to \$2.65M from in-the-money options

Stock Options and Warrants

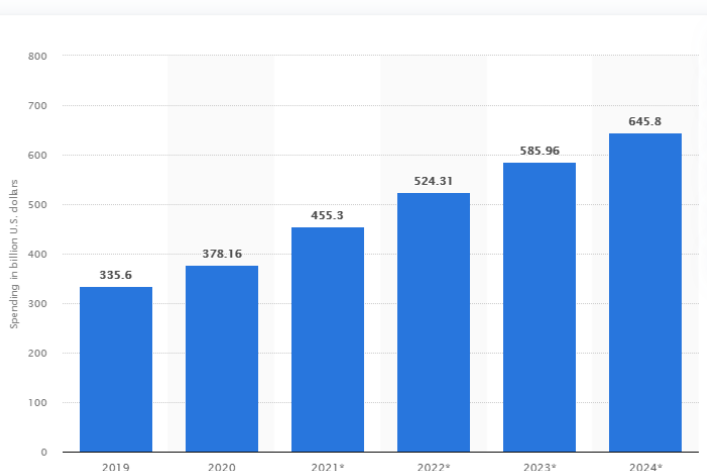
8M options (weighted average exercise price of \$0.46), and 0.23M warrants (\$0.78) outstanding. 6.7M options are currently in-the-money, implying potential to raise up to \$2.65M.

FRC Projections and Valuation

The outlook for global digital ad spending remains strong.

Expected to grow from \$378B in 2020 (51% of total media spending), to \$646B by 2024 (68%)

Digital Ad Spending Worldwide



Source: Statista

Google (NASDAQ: GOOG) recently imposed new restrictions on ads targeting kids. We believe the recent initiatives by Google, Apple (NASDAQ: AAPL), and Instagram (NASDAQ: FB) emphasize a growing need/demand for compliant and safe ad networks for kids. Note that KIDZ' SDK is one of the few Child Online Privacy Protection Act (COPPA) and GDPR (European equivalent of the U.S. COPPA) compliant networks approved by Google and Apple as safe ad networks for kids.

KIDZ' remains focused on **onboarding popular publishers/apps** to increase audience/reach. This strategy allows the company to quickly expand its reach, with minimal marketing budget.

The company recently announced partnerships with two popular ad mediation platforms - TopOn and TradPlus – **to enter China**. Mediation platforms are aggregators of ad networks (such as KIDOZ SDK). Both companies have integrated KIDOZ SDK into their solutions for mobile apps. We believe these partnerships will allow KIDZ to reach a large audience quickly. Q3 revenue will provide us insights on the effectiveness of this strategy.

Maintaining revenue, but lowering EPS forecasts due to higher than expected non-cash expenses in Q2

	Old 2021E	New 2021E	Old 2022E	New 2022E
Revenue	\$11,080,732	\$11,024,462	\$19,722,167	\$19,272,167
EBITDA	\$1,811,895	\$927,885	\$5,101,927	\$4,701,520
Net Profit (Loss)	\$1,217,289	\$333,279	\$3,186,153	\$2,905,868
EPS	\$0.01	\$0.00	\$0.02	\$0.02

Our revised DCF valuation is C\$2.21 vs our previous estimate of C\$2.23

DCF Valuation	2021E-H2	2022E	2025E	Terminal
Funds Flow from Operations (US\$)	1,285,859	3,752,715	40,204,076	
Change in Working Capital (US\$)	(56,203)	(1,172,774)	(7,676,790)	
Cash from Operations (US\$)	1,229,657	2,579,941	32,527,286	
CAPEX (US\$)	(44,420)	(50,000)	(50,000)	
Free Cash Flow (US\$)	1,185,237	2,529,941	32,477,286	
Present Value (US\$)	1,091,436	2,070,862	18,670,798	202,430,752
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$244,396,548			
Cash - Debt (US\$)	\$1,505,223			
Fair Value (US\$)	\$245,901,771			
Shares O/S*	134,481,410			
Value per Share (C\$)	\$2.21			

*Treasury stock method

Source: FRC

We are maintaining a BUY rating, and revising our fair value estimate to C\$2.21 (previously C\$2.23). We believe record Q3 revenue will be the next major catalyst for KIDZ' shares.

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.

Maintaining risk rating of 4

Appendix

(in US\$) - YE Dec 31st	2020	2021E	2022E
Ad Revenues			
Content Revenues			
Total Revenue	7,148,029	11,024,462	19,272,167
Cost of Sales	3,800,114	5,908,767	10,226,970
Gross Profit	3,347,915	5,115,695	9,045,197
Expenses			
Selling & Marketing	397,948	719,664	400,000
Development	1,149,902	1,394,306	1,533,737
Stock Awareness Program		325,000	
Stock Based Compensation	158,883	269,606	296,567
Compensation, Salaries & Provision for Doubtful Accounts	478,906	776,052	1,164,078
Bad Debt Expense			
G & A	528,708	703,182	949,295
EBITDA	633,568	927,885	4,701,520
Amortization & Depreciation	618,699	594,607	550,281
EBIT	14,869	333,279	4,151,240
Interest & Bank Charges	1,003		
Exchange Rate and Unusual Items	32,856		
EBT	48,728	333,279	4,151,240
Income Taxes	-55,243		1,245,372
Net Earnings for the period	103,971	333,279	2,905,868
EPS	0.00	0.00	0.02

BALANCE SHEET (in US\$)- YE Dec 31st	2020	2021E	2022E
Assets			
Cash	1,226,045	2,620,837	5,150,779
Accounts receivable	3,933,540	2,046,278	2,713,559
Prepaid expenses	89,970	153,471	271,356
Current Assets	5,249,555	4,820,586	8,135,694
Property and equipment	21,839	65,188	87,674
Other Assets			
Goodwill, intangible assets, and other Intangibles, net	5,697,735	5,111,676	4,588,910
Goodwill			
Total Assets	10,969,129	9,997,451	12,812,278
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	2,147,927	1,256,343	868,735
Lease	30,083	25,715	25,715
Current Liabilities	2,178,010	1,282,058	894,450
Loans payable	47,089		
Lease	73,835	101,900	101,900
Shareholder's Equity			
Share Capital	49,094,096	49,330,825	49,627,392
Foreign Currency Translation	24,580	24,580	24,580
Deficit	-40,448,481	-40,741,912	-37,836,044
Total Liabilities & Shareholders' Equity	10,969,129	9,997,451	12,812,278

STATEMENTS OF CASH FLOWS

(in US\$)- YE Dec 31st	2020	2021E	2022E
Operating Activities			
Net earnings for the period	103,971	333,279	2,905,868
Items not involving cash			
Depreciation	618,699	594,607	550,281
Realized foreign exchange loss			
Gain on sale of domain name/others			
Amortization of operating lease ROU assets			
Deferred income tax recovery			
Stock Based Compensation	158,883	269,606	296,567
	881,553	1,197,491	3,752,715
Accounts Receivable	-1,540,762	-7,091	-667,281
Other Assets			
Prepaid Expenses	19,944	-66,077	-117,885
Accounts payable and accrued expenses	896,243	419,163	-387,608
Changes in working capital	-624,575	345,995	-1,172,774
Cash from (used in) operations	256,978	1,543,487	2,579,941
Financing activities			
Proceeds from secured borrowings, net	47,089		
Payment on operating lease liabilities	-23,697		
Options / Warrants			
Cash provided by financing activities	23,392	-	-
Investing activities			
Acquisition of equipment/subsidiary	-3,212	-50,000	-50,000
Goodwill / Others	-18,325		
Cash used in investing activities	-21,537	-50,000	-50,000
Increase (decrease) in cash	258,833	1,493,487	2,529,941
Cash beginning of period	967,212	1,127,350	2,620,837
Cash end of period	1,226,045	2,620,837	5,150,779

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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