

Kidoz Inc.

(TSXV: KIDZ / OTC: KDOZF)

Beat Q3 Revenue Estimate / Preparing for a Strong 2022

BUY

Current Price: C\$0.69

Fair Value: C\$2.10

Risk*: 4

Sector/Industry: Ad Tech

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

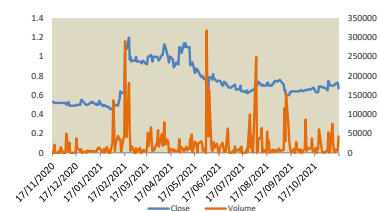
Highlights

- Generated record revenue in Q3, up 47% YoY, and 29% QoQ. We are raising our 2021 revenue forecast by 4% to \$11.5M.
- In Q3, monetized impressions grew 35% QoQ to 345M. **Ads increased 70% to 170M.**
- The outlook for global digital ad spending remains strong. KIDZ has added several major app publishers to its network, and remains focused on onboarding publishers/apps to increase audience/reach. The company has also enhanced its services (improved reporting and analysis) to clients.
- Another key recent development is the **expansion of product offerings** from kids under the age of 13, to teens (13-19) and parents. We believe all these initiatives should drive revenue growth in 2022.
- Gross margins declined in Q3; however, this should not be considered negative as it was because of geographical expansion, and increased revenue from areas outside the U.S., where revenue per ad is lower.
- KIDZ has also **expanded its product development team** (leading to increased SG&A expenses), implying that management is preparing for growth.
- Balance sheet remains healthy. KIDZ can raise up to C\$3.44M from all in-the-money options.
- We are expecting **record revenue in Q4**. Due to seasonality, Q4 is typically the best quarter for KIDZ.

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

Alexis Cabel, B.A.Econ
Equity Analyst

KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	33%	33%
TSXV	11%	35%

Company Data

52-Week Range	C\$0.45 - C\$1.25
Shares O/S	131M
Market Cap.	C\$91M
Current Yield	N/A
P/E (forward)	N/A
P/B	11x

Key Financial Data (FYE - Dec 31) (US\$)

	2020	2021E	2022E
Cash	1,226,045	1,654,965	4,263,412
Working Capital	3,071,545	3,547,037	6,954,859
Total Assets	10,969,129	10,144,741	13,140,023
LT Debt to Capital	0.0%	0.0%	0.0%
Revenues	7,148,029	11,450,089	19,010,057
Net Income	103,971	13,568	2,279,825
EPS	0.00	0.00	0.02

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

Financials

Statement of Operations									
Y/E Dec 31	Q2-2020	Q2-2021	YoY	Q3-2020	Q3-2021	YoY	9M-2020	9M-2021	YoY
Revenue	736,827	2,177,505	196%	1,919,973	2,814,642	47%	3,640,779	6,550,089	80%
COGS	411,058	1,153,172	181%	1,005,316	1,588,108	58%	1,956,178	3,614,181	85%
SG&A Expense	528,202	1,257,744	138%	574,619	970,241	69%	1,785,246	2,985,903	67%
EBITDA	(212,282)	(425,996)		266,424	77,530		(184,649)	(498,364)	
EBITDA (adjusted)	(202,433)	52,446	-126%	340,038	321,685	-5%	(100,645)	301,254	-399%
Net Profit (Loss)	(361,399)	(545,086)	-51%	116,634	(75,040)		(648,689)	(967,161)	-49%
EPS	(0.003)	(0.004)		0.001	(0.001)		(0.005)	(0.007)	

Margins	Q2-2020	Q2-2021	Q3-2020	Q3-2021	9M-2020	9M-2021
Gross	44%	47%	48%	44%	46%	45%
EBITDA	-29%	-20%	14%	3%	-5%	-8%
EBITDA (adjusted)	-27%	2%	18%	11%	-3%	5%
EBIT	-50%	-26%	6%	-3%	-18%	-15%
Net	-49%	-25%	6%	-3%	-18%	-15%
SG&A	73%	53%	34%	38%	51%	47%
Share-based	1.3%	8.8%	3.8%	6.4%	2.3%	6.8%

Summary of Cash Flows	Q3-2020	Q3-2021	9M-2020	9M-2021
Operating	27,527	(359,077)	171,612	(45,247)
Investing	(2,524)	5,502	(9,632)	(78)
Financing	(3,336)	(10,043)	7,807	9,288
Net	21,667	(363,618)	169,787	(36,037)
Free Cash Flows to Firm (FCF)	25,003	(353,575)	161,980	(45,325)

Liquidity & Capital Structure	Q1-2021	Q2-2021	Q3-2021
Cash	1,611,592	1,553,626	1,190,008
Working Capital	2,951,465	2,948,809	3,197,215
Current Ratio	3.49	2.88	2.93
Total Debt	-	-	-
Total Debt / Capital	0.0%	0.0%	0.0%

Source: FRC

Stock Options and Warrants

8.15M options (weighted average exercise price of C\$0.58), and 0.23M warrants (C\$0.77) outstanding. 6.90M options are currently in-the-money, implying a potential to raise up to C\$3.44M.

Q3 revenue up 47% YoY, and 29% QoQ

Gross margins declined because of geographical diversification

The company also expanded its product development team, resulting in higher operating costs, and lower EPS

FCF declined as well

Healthy balance sheet, with minimal debt; no need for any equity financings

Can raise up to C\$3.44M from in-the-money options

FRC Projections and Valuation

Ad spending in the U.S. is expected to grow 23% in 2021, and 12% in 2022, to surpass \$300B (Source: IPG)

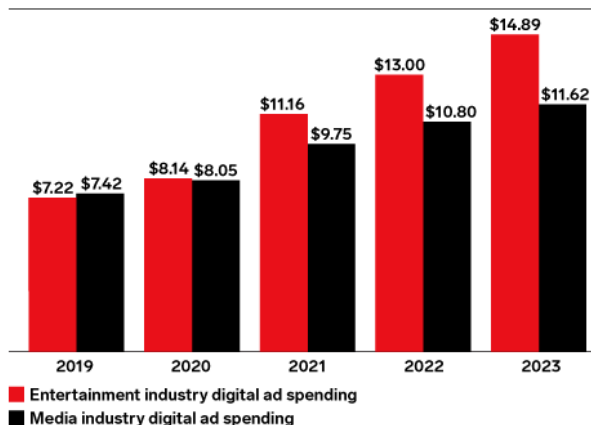
According to eMarketer, digital ad spending for entertainment in the U.S. is expected to grow by 89% from 2020 to 2023

Raising 2021 revenue, but lowering our EPS forecasts for 2021 and 2022 due to lower gross margins and higher OPEX

As a result of lower EPS estimates, our DCF valuation declined from C\$2.21 to C\$2.10 per share

US Entertainment and Media Industry Digital Ad Spending, 2019-2023

billions



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms
Source: eMarketer, June 2021

270433

eMarketer | InsiderIntelligence.com

	2021E (Old)	2021E (New)	2022E (Old)	2022E (New)
Revenue	\$11,024,462	\$11,450,089	\$19,722,167	\$19,010,057
EBITDA	\$927,885	\$608,175	\$4,701,520	\$3,807,173
Net Income	\$333,279	\$13,568	\$2,905,868	\$2,279,825
EPS	\$0.00	\$0.00	\$0.02	\$0.02

DCF Valuation	Q4-2021E	2022E	2025E	Terminal
Funds Flow from Operations (US\$)	1,054,407	3,457,822	34,958,481	
Change in Working Capital (US\$)	(431,545)	18,845	(7,080,143)	
Cash from Operations (US\$)	622,862	3,476,667	27,878,338	
CAPEX (US\$)	(42,132)	(50,000)	(50,000)	
Free Cash Flow (US\$)	580,730	3,426,667	27,828,338	
Present Value (US\$)	563,879	2,957,544	16,868,989	182,895,352
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$221,262,551			
Cash - Debt (US\$)	\$1,142,803			
Fair Value (US\$)	\$222,405,354			
Shares O/S	133,336,332			
Value per Share (C\$)	\$2.10			

Source: FRC

We are maintaining a BUY rating, and revising our fair value estimate to C\$2.10 (previously C\$2.21). We believe record Q4 revenue will be the next major catalyst.

*Maintaining risk
rating of 4*

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.

Appendix

INCOME STATEMENT			
(in US\$) - YE Dec 31st	2020	2021E	2022E
Ad Revenues			
Content Revenues			
Total Revenue	7,148,029	11,450,089	19,010,057
Cost of Sales	3,800,114	6,191,500	10,260,000
Gross Profit	3,347,915	5,258,589	8,750,057
Expenses			
Selling & Marketing	397,948	744,256	950,503
Development	1,149,902	1,658,457	1,741,380
Stock Awareness Program		351,249	
Stock Based Compensation	158,883	597,825	627,717
Compensation, Salaries & G & A	478,906	664,465	830,581
	528,708	634,163	792,703
EBITDA	633,568	608,175	3,807,173
Amortization & Depreciation	618,699	594,607	550,281
EBIT	14,869	13,568	3,256,893
Interest & Bank Charges	1,003		
Exchange Rate and Unusual Items	32,856		
EBT	48,728	13,568	3,256,893
Income Taxes	-55,243		977,068
Net Earnings for the period	103,971	13,568	2,279,825
EPS	0.00	0.00	0.02
BALANCE SHEET			
(in US\$)- YE Dec 31st	2020	2021E	2022E
Assets			
Cash	1,226,045	1,654,965	4,263,412
Accounts receivable	3,933,540	3,155,153	3,937,525
Inventory			
Related parties			
Prepaid expenses	89,970	157,758	262,502
Current Assets	5,249,555	4,967,876	8,463,439
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	10,144,741	13,140,023
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	2,147,927	1,395,124	1,482,865
Lease	30,083	25,715	25,715
Current Liabilities	2,178,010	1,420,839	1,508,580
Loans payable	47,089		
Lease	73,835	101,900	101,900
Shareholder's Equity			
Share Capital	49,094,096	49,659,044	50,286,761
Foreign Currency Translation	24,580	24,580	24,580
Deficit	-40,448,481	-41,061,622	-38,781,798
Total Liabilities & Shareholders' Equity	10,969,129	10,144,741	13,140,023

STATEMENTS OF CASH FLOWS			
(in US\$)- YE Dec 31st	2020	2021E	2022E
Operating Activities			
Net earnings for the period	103,971	13,568	2,279,825
Items not involving cash			
Depreciation	618,699	594,607	550,281
Stock Based Compensation	158,883	597,825	627,717
Impairment			
Issuance of consultant stock options			
Loss on disposal of equipment / Others			
	881,553	1,206,000	3,457,822
Accounts Receivable	-1,540,762	-1,115,966	-782,372
Other Assets			
Prepaid Expenses	19,944	-70,364	-104,744
Accounts payable and accrued expenses	896,243	557,945	87,741
Changes in working capital	-624,575	-628,385	-799,375
Cash from (used in) operations	256,978	577,615	2,658,447
Financing activities			
Proceeds from secured borrowings, net	47,089		
Payment on operating lease liabilities	-23,697		
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

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 (5%), SELL / SUSPEND (26%).

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.