

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

BUY
Current Price: C\$0.48
Fair Value: C\$2.05
Risk*: 4

Benefitting From Rising Smartphone Adoption and Digital Ad Spending

Sector/Industry: Ad Tech

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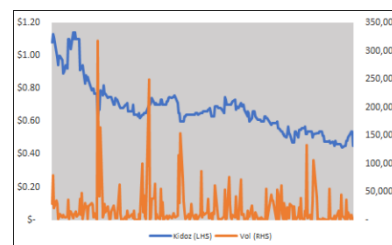
Highlights

- Kidoz reported **record revenue in 2021**, up 75% YoY to \$12.5M, beating our estimate by 9%. Revenue growth came from increased ads, monetized impressions, and enhanced product offerings. In Q4, monetized impressions rose 88% QoQ, and **ads increased 97% QoQ**.
- 4,000 apps are using Kidoz**, reaching over **300M kids** in 58 countries. Clientele include Disney (NYSE: DIS), McDonalds (NYSE: MCD), Lego, and Hasbro (NASDAQ: HAS) – to name a few.
- 2021 marked record spending in global digital advertising (up 29% YoY). **Kidoz's revenue growth was 2.6x industry growth**. According to eMarketer, a market research firm, global digital ad spending is expected to increase 16% to \$571B in 2022, driven by rising adoption of smartphones. **Smartphone usage and screentime increased significantly during the pandemic**.
- KIDZ expanded their product offerings from kids under the age of 13, to **teens (13-19) and parents**. Another key revenue driver was the implementation of **programmatic advertising** last year, allowing advertisers to acquire ad space through auctions/bidding. We note that programmatic ads are a new trend in the digital ad space, and gaining mass adoption quickly. Per Statista, global programmatic ad sales were \$155B in 2021, **up 46%** from \$106B in 2019.
- Based on market growth expectations and company-specific initiatives, we are **expecting 2022 revenue to be up 50%** (3x industry growth) to \$19M (forecast unchanged).

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

Dushan Ratkovic, HBCom
Equity Analyst

KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	-19%	-56%
TSXV	-6%	-8%

Company Data

52-Week Range	C\$0.44 - C\$1.18
Shares O/S	131M
Market Cap.	C\$63M
Current Yield	N/A
P/E (forward)	34x
P/B	7x

Key Financial Data (FYE - Dec 31) (US\$)	2021	2022E	2023E
Cash	2,078,607	3,644,916	6,763,016
Working Capital	4,536,851	6,694,131	10,047,386
Total Assets	13,925,531	15,940,083	19,659,772
LT Debt to Capital	0.5%	0.0%	0.0%
Revenue	12,475,480	19,010,057	25,200,000
Net Income	(190,321)	1,847,997	2,786,225
EPS	0.00	0.01	0.02

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

Financials

2021 revenue beat our estimate by 9%

However, EBITDA was in line, as gross margins were lower than expected (43% vs. 46%)

Gross margins declined due to volume discounts offered to advertisers; management expects margins to trend to 40% over the long-term

Fixed expenses were in line with our estimates

Adjusted EBITDA up 115% YoY

FCF up 262% YoY

Healthy balance sheet, with minimal debt

Can raise up to C\$0.91M

Statement of Operations			
Y/E Dec 31	2020	2021	YoY
Revenue	7,148,029	12,475,480	75%
COGS	3,800,114	7,143,148	88%
SG&A Expense	1,405,562	1,948,239	39%
Development	1,149,902	1,678,848	46%
EBITDA	633,568	642,134	1%
EBITDA (adjusted)	792,451	1,705,245	115%
Net Profit (Loss)	103,971	(190,321)	-283%
EPS	0.001	(0.001)	

Margins	2020	2021
Gross	47%	43%
EBITDA	9%	5%
EBITDA (adjusted)	11%	14%
EBIT	0%	0%
Net	1%	-2%
SG&A	7%	5%
Share-based	2%	5%

Summary of Cash Flows	2020	2021
Operating	256,978	851,533
Investing	(21,537)	(384)
Financing	23,392	1,413
Net	258,833	852,562
Free Cash Flows to Firm (FCF)	235,441	851,149

Liquidity & Capital Structure	2020	2021
Cash	1,226,045	2,078,607
Working Capital	3,071,545	4,536,851
Current Ratio	2.41	2.06
Total Debt	47,089	47,248
Total Debt / Capital	0.5%	0.5%

Source: FRC

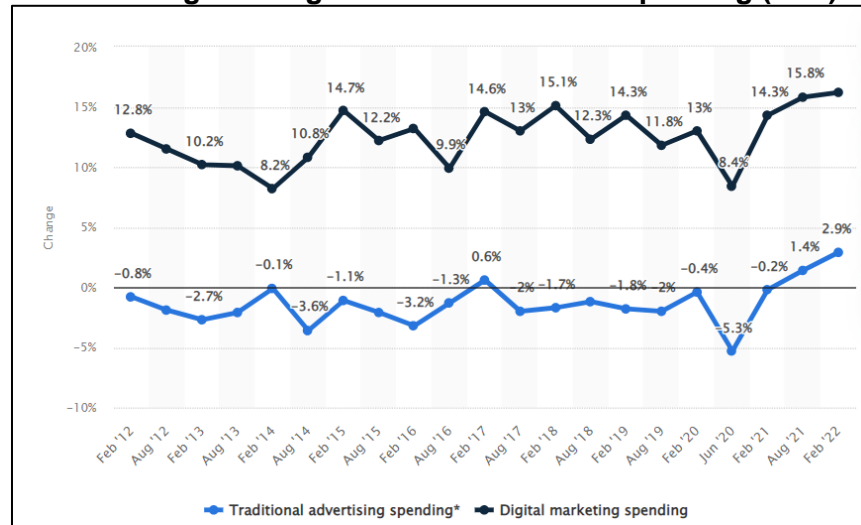
Stock Options and Warrants

6.87M options (weighted average exercise price of C\$0.59), and 0.23M warrants (weighted average exercise price of C\$0.98) outstanding. 2.03M options are currently in-the-money, implying potential to raise up to C\$0.91M if exercised.

Sector Outlook

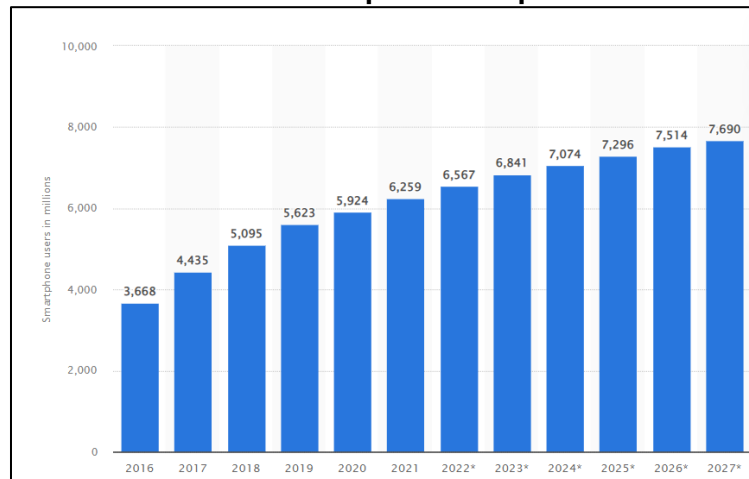
Digital ad spending has been outpacing traditional spending

YoY Changes in Digital vs Traditional Ad Spending (U.S.)



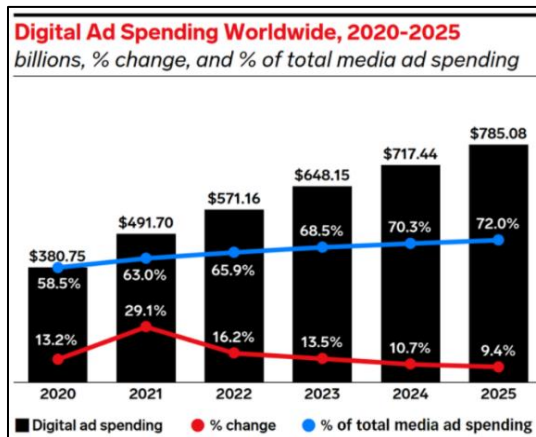
Smartphone adoption has been driving digital ad spending

Global Smartphone Adoption



Source: Statista

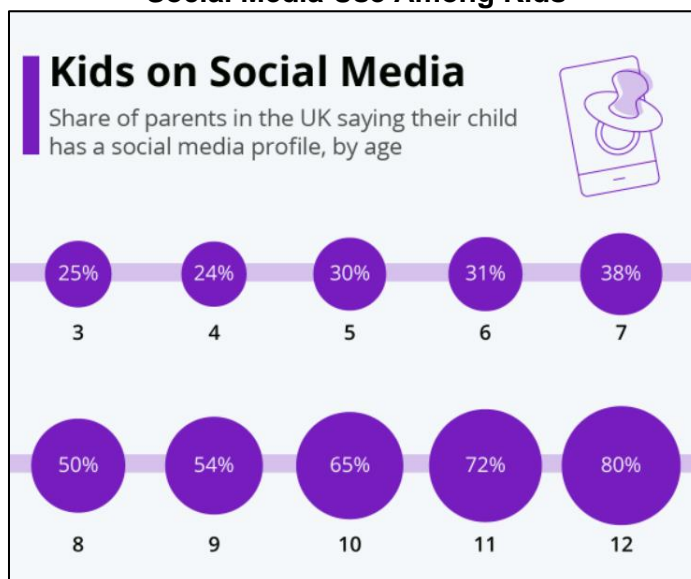
Global digital ad spending is expected to grow 16% p.a. (2020-2025), and account for 72% of total ad spending by 2025 (from 59% in 2020)



Source: eMarketer

80% of parents say their children under the age of 12 have a social media account, reflecting KIDZ's massive target market

Social Media Use Among Kids



Source: Statista

Competitive Landscape

The following table shows a few of the leading ad network SDKs (Software Development Kits). Google's AdMob (NASDAQ: GOOGL) dominates the space, as 88% of apps use AdMob. An app typically uses three to five SDKs.

Competitors Market Share and Revenue per App

Ad SDKs	Total Apps (1,000s)	Market Share	Revenue per app
1 Google Ads AdMob	1,280	88%	
2 Facebook Audience Network	367	25%	
3 Unity Ads	283	19%	\$1,060
4 Startapp	184	12%	\$377
5 AppLovin MAX	121	8%	\$1,934
6 AdColony	100	6%	\$4,840
7 AppNext	50	3%	\$1,682
8 Chartboost	40	2%	\$323
9 InMobi	31	2%	\$12,097
10 Tapjoy	26	1%	\$3,846
Average (excl outliers)			\$3,270

Source: 42matters / FRC

KIDZ's revenue per app of \$3,200 is in line with that of larger players

In 2021, Kidoz generated \$12.48M in revenue, or **\$3,200 in revenue per app**, which is in line with the average of comparables. Note that KIDZ is one of only 11 SDKs approved by Google as a **safe ad network for kids**. Additionally, Apple (NASDAQ: AAPL) has a history of removing apps from its store due to concerns over inappropriate ads shown to kids.

FRC Projections and Valuation

We are maintaining our revenue forecasts

However, we are lowering our 2022 gross margin forecast, resulting in a lower EPS estimate

As a result, our DCF valuation declined from C\$2.10 to C\$2.05 per share

Maintaining our risk rating of 4

	2022E (Old)	2022E (New)	Introducing - 2023E
Revenue	\$19,010,057	\$19,010,057	\$25,200,000
EBITDA	\$3,807,173	\$3,307,026	\$4,647,351
Net Income	\$2,279,825	\$1,847,997	\$2,786,225
EPS	\$0.02	\$0.01	\$0.02

DCF Valuation	2022E	2023E	2024E	2025E	2026E	2027E	Terminal
Funds Flow from Operations (US\$)	2,515,027	3,453,255	33,271,997	23,894,492	25,770,431	26,757,431	
Change in Working Capital (US\$)	(848,718)	(235,154)	(1,856,279)	(1,116,415)	(263,045)	(681,461)	
Cash from Operations (US\$)	1,666,309	3,218,100	31,415,718	22,778,077	25,507,386	26,075,969	
CAPEX (US\$)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	
Free Cash Flow (US\$)	1,566,309	3,118,100	31,315,718	22,678,077	25,407,386	25,975,969	
Present Value (US\$)	1,433,881	2,537,308	22,651,290	14,580,898	14,520,632	13,196,075	143,073,229
Discount Rate	12.5%						
Terminal Growth	3%						
Present Value (US\$)	\$211,993,312						
Cash - Debt (US\$)	\$2,031,359						
Fair Value (US\$)	\$214,024,671						
Shares O/S	131,551,889						
Value per Share (C\$)	\$2.05						

Source: FRC

We are maintaining our **BUY** rating, and adjusting our fair value estimate to C\$2.05 per share (previously C\$2.10 per share). KIDZ is down 18% YTD, and 56% YoY. We believe **this pullback is unwarranted**, considering that the company just posted record revenue. We are expecting 2022 revenue to be up 50%.

Risks

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

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

Appendix

INCOME STATEMENT			
(in US\$) - YE Dec 31st	2021	2022E	2023E
Total Revenue	12,475,480	19,010,057	25,200,000
Cost of Sales	7,143,148	11,020,000	14,868,000
Gross Profit	5,332,332	7,990,057	10,332,000
Expenses			
Selling & Marketing	641,393	969,513	1,260,000
Development	1,678,848	2,014,618	2,216,079
Stock Awareness Program	402,845	-	-
Stock Based Compensation	660,266	-	-
Compensation, Salaries & G & A	701,964	912,553	1,186,319
	604,882	786,347	1,022,251
EBITDA	642,134	3,307,026	4,647,351
Amortization & Depreciation	606,391	667,030	667,030
EBIT	35,743	2,639,996	3,980,321
Interest & Bank Charges	241	-	-
Exchange Rate and Unusual Items	(9,628)	-	-
EBT	26,356	2,639,996	3,980,321
Income Taxes	216,677	791,999	1,194,096
Net Earnings for the period	(190,321)	1,847,997	2,786,225
EPS	0.00	0.01	0.02
BALANCE SHEET			
(in US\$)- YE Dec 31st	2021	2022E	2023E
Assets			
Cash	2,078,607	3,644,916	6,763,016
Accounts receivable	6,627,864	7,622,044	8,765,350
Prepaid expenses	105,468	126,562	151,874
Current Assets	8,811,939	11,393,521	15,680,240
Property and equipment	20,523	20,523	20,523
Goodwill, intangible assets, and other	5,093,069	4,526,039	3,959,009
Total Assets	13,925,531	15,940,083	19,659,772
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	4,243,020	4,667,322	5,600,786
Lease	32,068	32,068	32,068
Current Liabilities	4,275,088	4,699,390	5,632,854
Loans payable	47,248	-	-
Deferred tax liability	210,499	-	-
Lease	41,999	41,999	41,999
Shareholder's Equity			
Share Capital	49,964,919	49,964,919	49,964,919
Foreign Currency Translation	24,580	24,580	24,580
Deficit	(40,638,802)	(38,790,805)	(36,004,580)
Total Liabilities & Shareholders' Equity	13,925,531	15,940,083	19,659,772

STATEMENTS OF CASH FLOWS			
(in US\$)- YE Dec 31st	2021	2022E	2023E
Operating Activities			
Net earnings for the period	(190,321)	1,847,997	2,786,225
Items not involving cash			
Depreciation	606,391	667,030	667,030
Gain on derivative liability	(60,207)	-	-
Deferred income tax expense	210,499	-	-
Unrealized foreign exchange loss	134	-	-
Stock Based Compensation	660,266	-	-
Shares issued for services	179,293	-	-
Stock awareness program	83,572	-	-
	1,489,627	2,515,027	3,453,255
Accounts Receivable	(2,694,324)	(994,180)	(1,143,307)
Prepaid Expenses	(15,498)	(21,094)	(25,312)
Accounts payable and accrued expenses	2,071,728	166,555	933,464
Changes in working capital	(638,094)	(848,718)	(235,154)
Cash from (used in) operations	851,533	1,666,309	3,218,100
Financing activities			
Proceeds from secured borrowings, net	200,000	-	-
Government Loan	(200,000)	-	-
Equity	-	-	-
Payment on operating lease liabilities	(29,851)	-	-
Options / Warrants	31,264	-	-
Cash provided by financing activities	1,413	-	-
Investing activities			
Acquisition of equipment/subsidiary	(8,152)	(100,000)	(100,000)
Long-term cash equivalent	7,768	-	-
Cash used in investing activities	(384)	(100,000)	(100,000)

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:

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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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