

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

BUY

Current Price: C\$0.42

Fair Value: C\$1.92

Risk*: 4

Expecting Record Revenue Despite Potential Weakness in Global Ad Spending

Sector/Industry: Ad Tech

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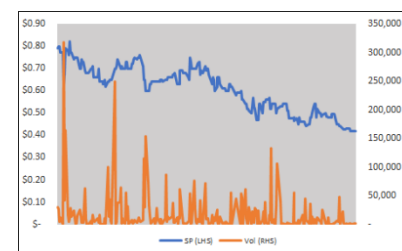
Highlights

- In Q1-2022, Kidoz reported **record revenue** of \$2.3M, up 47% YoY, but 4% lower than our forecast. The company did not disclose performance metrics, but revenue growth continues to come from expanded product offerings from kids under the age of 13, to teens (13-19) and parents, and the implementation of **programmatic advertising last year**, which allows advertisers to acquire ad space through auctions/bidding.
- Management has started providing guidance; their 2022 revenue forecast is \$19M to \$21M. We are **maintaining our 2022 revenue estimate of \$19M**.
- Despite stronger revenue, EPS declined YoY, and was 28% lower than our estimate due to lower gross margins, and increased G&A expenses (due to expanded labor force) and software development costs to support growth.
- Gross margins declined YoY (44% to 36%) due to volume discounts offered to advertisers to gain market share. However, based on their pricing projections, management expects **gross margins to increase to 40%** in subsequent quarters. We believe this is a reasonable estimate as the sector average is 44% (Source: S&P Capital IQ).
- Slower global GDP growth** and **supply chain disruptions** are expected to result in slower growth in consumer spending, and global digital ad spending this year. According to eMarketer, global digital ad spending is expected to grow at a **slower pace this year** (15.6% vs 29.9% last year). That said, we remain positive on the sector's long-term prospects, driven by rising adoption of smartphones. According to Statista, global digital ad spending is expected to reach US\$413B by 2024, up from US\$163B in 2018 (17% p.a.).
- Underwent a **corporate restructure**; instead of having two Co-CEOs, the company has decided to have a single CEO. One of the Co-CEOs has been made the company's President. In order to focus equally on North America and Europe, CEO Jason Williams will relocate from the U.K. to Canada. President Eldad Ben Tora continues to be based out of Israel.
- We are expecting continued momentum, and **expecting 50% YoY revenue growth in Q2**. For the full year, we are expecting 52% revenue growth vs 75% in 2021.

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KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	-29%	-47%
TSXV	-26%	-27%

Company Data

52-Week Range	C\$0.42 - C\$0.84
Shares O/S	131M
Market Cap.	C\$55M
Current Yield	N/A
P/E (forward)	N/A
P/B	6x

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

	2021	2022E	2023E
Cash	2,078,607	2,943,965	4,890,079
Working Capital	4,536,851	5,356,727	7,526,619
Total Assets	13,925,531	15,299,771	18,289,215
Revenue	12,475,480	19,010,057	25,247,880
Net Income	(190,321)	571,232	1,663,501
EPS	0.00	0.00	0.01

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

Financials

Record quarterly revenue of \$2.3M, up 47% YoY (4% lower than our estimate)

Gross margins declined YoY (36% vs 44%; our forecast was 41%) due to volume discounts

EPS and FCF declined YOY due to increased G&A expenses (as a result of its expanded workforce), and software development costs; we are raising our G&A expense forecasts

Healthy balance sheet with \$4M in working capital, and little debt

We are maintaining our 2022 and 2023 revenue estimates

However, we are lowering our EPS forecasts as we lowered gross margins and raised G&A expenses

STATEMENTS OF OPERATIONS				
Y/E Dec 31	Q1-2020	Q1-2021	Q1-2022	YoY
Revenue	983,979	1,557,942	2,283,974	47%
COGS	539,804	872,901	1,453,079	66%
SG&A Expense	698,338	834,939	1,403,075	20%
EBITDA	(254,163)	(149,898)	(572,180)	-282%
EBITDA (adjusted)	(253,622)	(72,877)	(360,851)	
Net Profit (Loss)	(403,924)	(347,044)	(731,042)	-111%
EPS	(0.003)	(0.00)	(0.01)	

Margins	Q1-2021	Q1-2022
Gross	44%	36%
EBITDA	-10%	-25%
EBITDA (adjusted)	-5%	-16%
EBIT	-20%	-32%
Net	-22%	-32%

SG&A	Q1-2021	Q1-2022
Share-based	4.9%	61%
		9.3%

Summary of Cash Flows	Q1-2021	Q1-2022
Operating	393,060	15,881
Investing	(2,265)	(6,979)
Financing	(5,248)	(7,039)
Net	385,547	1,863
Free Cash Flows to Firm (FCF)	390,795	8,902

Liquidity & Capital Structure	Q1-2021	Q1-2022
Cash	1,611,592	2,080,470
Working Capital	2,951,465	4,099,272
Current Ratio	3.49	3.13
Total Debt	47,650	47,977
Total Debt / Capital	0.6%	0.5%

Source: FRC

Stock Options and Warrants

9.21M options (weighted average exercise price of C\$0.42), and 0.23M warrants (weighted average exercise price of C\$0.98) outstanding. None of the options and warrants are in the money.

FRC Projections and Valuation

	2022E (Old)	2022E (New)	2023E (Old)	2023E (New)
Revenue	\$19,010,057	\$19,010,057	\$25,200,000	\$25,247,880
EBITDA	\$3,307,026	\$1,278,429	\$4,647,351	\$2,563,451
Net Income	\$1,847,997	\$571,232	\$2,786,225	\$1,663,501
EPS	\$0.01	\$0.00	\$0.02	\$0.01

Source: FRC

As a result, our DCF valuation declined to \$1.92 per share (previously \$2.05)

DCF Valuation	Q2-Q4 2022E	2023E	2024E	2025E	2026E	2027E	Terminal
Funds Flow from Operations (US\$)	1,616,990	2,269,892	4,308,919	9,743,953	19,412,259	31,067,212	
Change in Working Capital (US\$)	(667,513)	(223,777)	(705,582)	(1,305,772)	(1,828,245)	(2,469,769)	
Cash from Operations (US\$)	949,477	2,046,114	3,603,337	8,438,181	17,584,014	28,597,443	
CAPEX (US\$)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	
Free Cash Flow (US\$)	849,477	1,946,114	3,503,337	8,338,181	17,484,014	28,497,443	
Present Value (US\$)	793,072	1,615,016	2,584,270	5,467,323	10,190,420	14,764,009	160,072,943
Discount Rate	12.5%						
Terminal Growth	3%						
Present Value (US\$)	\$195,487,054						
Cash - Debt (US\$)	\$2,032,493						
Fair Value (US\$)	\$197,519,547						
Shares O/S	131,424,989						
Value per Share (C\$)	\$1.92						

Source: FRC

We are maintaining our BUY rating, and adjusting our fair value estimate to \$1.92 per share (previously \$2.05 per share). Although we are expecting relatively slow revenue growth this year (amid weaker global ad spending), we are expecting the company to set records in Q2.

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.

Maintaining our risk rating of 4

Appendix

INCOME STATEMENT			
(in US\$) - YE Dec 31st	2021	2022E	2023E
Total Revenue	12,475,480	19,010,057	25,247,880
Cost of Sales	7,143,148	11,400,000	15,148,728
Gross Profit	5,332,332	7,610,057	10,099,152
Expenses			
Selling & Marketing	641,393	893,473	1,009,915
Development	1,678,848	2,066,556	2,479,867
Stock Awareness Program	402,845	410,648	492,778
Stock Based Compensation	660,266	639,992	767,990
Compensation, Salaries & Consultation	701,964	1,474,124	1,768,949
G & A	604,882	846,835	1,016,202
EBITDA	642,134	1,278,429	2,563,451
Amortization & Depreciation	606,391	606,391	606,391
EBIT	35,743	672,038	1,957,060
Interest & Bank Charges	241	-	-
Exchange Rate and Unusual Items	(9,628)	-	-
EBT	26,356	672,038	1,957,060
Income Taxes	216,677	100,806	293,559
Net Earnings for the period	(190,321)	571,232	1,663,501
EPS	0.00	0.00	0.01
BALANCE SHEET			
(in US\$)- YE Dec 31st	2021	2022E	2023E
Assets			
Cash	2,078,607	2,943,965	4,890,079
Accounts receivable	6,627,864	7,622,044	9,146,452
Prepaid expenses	105,468	126,562	151,874
Current Assets	8,811,939	10,692,570	14,188,405
Property and equipment	20,523	20,523	20,523
Goodwill, intangible assets, and other	5,093,069	4,586,678	4,080,287
Total Assets	13,925,531	15,299,771	18,289,215
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	4,243,020	5,303,775	6,629,719
Lease	32,068	32,068	32,068
Current Liabilities	4,275,088	5,335,843	6,661,787
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)	(40,067,570)	(38,404,069)
Total Liabilities & Shareholders' Equity	13,925,531	15,299,771	18,289,215

STATEMENTS OF CASH FLOWS			
(in US\$)- YE Dec 31st	2021	2022E	2023E
Operating Activities			
Net earnings for the period	(190,321)	571,232	1,663,501
Items not involving cash			
Depreciation	606,391	606,391	606,391
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	1,177,623	2,269,892
Accounts Receivable	(2,694,324)	(994,180)	(1,524,409)
Prepaid Expenses	(15,498)	(21,094)	(25,312)
Accounts payable and accrued expenses	2,071,728	803,008	1,325,944
Changes in working capital	(638,094)	(212,265)	(223,777)
Cash from (used in) operations	851,533	965,358	2,046,114
Financing activities			
Proceeds from secured borrowings, net	200,000	-	-
Government Loan	(200,000)	-	-
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)

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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%

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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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