

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

**BUY**

**Current Price: C\$0.46**

**Fair Value: C\$1.69**

**Risk\*: 4**

**Growing Faster Than YouTube & Meta**

**Sector/Industry: Ad Tech**

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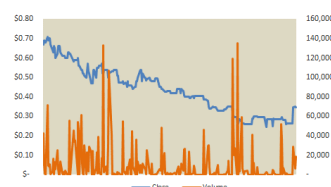
**Highlights**

- **Q3 revenue was up 25% YoY (Q2 – up 15% YoY)**, but 5% below our estimate due to weaker global ad spending, amid a softening global economy, and a stronger US\$. Most ad-based tech companies reported pullbacks in ad spending. For example, YouTube's (NASDAQ: GOOGL) ad revenue was down 2% YoY in Q3. **Meta's (NASDAQ: META) ad revenue was down 4% YoY.**
- Kidoz' revenue growth came from **material improvements in key operating metrics**, including 503M monetized impressions (up 46% YoY), and 255M video views (up 111% YoY). We estimate that Kidoz generated \$0.007/ad view in Q3 (down 15% YoY) which **is in line with what online advertisers typically pay (\$0.003 to \$0.01)**. For comparison, YouTube, which is one of the most expensive ad platforms, generates \$0.10-\$0.40/ad view.
- Management has **maintained their 2022 revenue guidance** of \$16M-\$18M. As Q3 was weaker than expected, we are lowering our estimate by 5% to \$16.2M.
- We were pleased to see Kidoz **diversifying its revenue-base outside North America**. Europe accounted for 34% of revenue in Q3-2022 vs 25% in Q3-2021.
- Gross and EBITDA margins were lower YoY (due to volume discounts and increased spending on content/software development), but in line with our estimates.
- Slower GDP and consumer spending growth remain headwinds to near-term digital ad spending. **Global digital ad spending is expected to grow 13% in 2022, and 11% in 2023, vs 37% in 2021 (per consensus estimates).**
- Although KIDZ has outperformed its benchmark (TSXV), we expect tech stocks to be under pressure in the near-term, amid slower expected GDP growth, and as the Fed is expected to continue raising rates. That said, we are expecting the Fed to turn less hawkish by year-end/early next year, **which should trigger a rally in tech stocks.**
- Due to seasonality, Q4 is typically the strongest quarter, accounting for approximately 50% of annual revenue. **We expect Kidoz' EPS to turn positive in Q4.**

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Head of Research

**Alexis Cabel, BAEcon**  
Equity Analyst

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



	YTD	12M
KIDZ	-22%	-35%
TSXV	-39%	-40%

**Company Data**

52-Week Range	C\$0.25 - C\$0.70
Shares O/S	132M
Market Cap.	C\$61M
Current Yield	N/A
P/E (forward)	N/A
P/B	7.4x

**Key Financial Data (FYE - Dec 31)**

(US\$)	2021	2022E	2023E
Cash	2,078,607	2,732,041	4,301,851
Working Capital	4,536,851	5,144,803	6,938,390
Total Assets	13,925,531	15,087,847	17,700,987
Revenue	12,475,480	16,244,750	20,283,500
Net Income	(190,321)	359,308	1,287,196
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

Q3 revenue was up 25% YoY, but 5% lower than our forecast due to lower ad spending

Although gross margins declined YoY, as a result of volume discounts, they were in line with our estimate

Despite stronger revenue, EBITDA and EPS deteriorated YoY, due to lower gross margins and increased investment in software development

Healthy balance sheet, with \$3.8M in working capital, and little debt

In-the-money options can bring in C\$0.9M

Statement of Operations									
Y/E Dec 31	Q2-2021	Q2-2022	YoY%	Q3-2021	Q3-2022	YoY%	2021 (9M)	2022 (9M)	YoY%
<b>Revenue</b>	2,177,505	2,513,613	15%	2,814,642	3,505,812	25%	6,550,089	8,303,399	27%
Gross Profit	1,024,333	971,965	-5%	1,226,534	1,245,570	2%	2,935,908	3,048,430	4%
<b>EBITDA (adjusted)</b>	(233,411)	(306,980)	32%	256,293	79,348	-69%	(49,995)	(639,814)	1180%
<b>Net Profit (Loss)</b>	(545,086)	(721,677)	32%	(75,040)	(313,774)	318%	(967,161)	(1,766,493)	83%

Margins	Q2-2021	Q2-2022	Q3-2021	Q3-2022	2021 (9M)	2022 (9M)
<b>Gross</b>	47%	39%	44%	36%	45%	37%
EBITDA (adjusted)	-11%	-12%	9%	2%	-1%	-8%
EBIT	-26%	-25%	-3%	-7%	-15%	-19%
<b>Net</b>	-25%	-29%	-3%	-9%	-15%	-21%

Summary of Cash Flows	Q1-2021	Q1-2022	Q2-2021	Q2-2022	Q3-2021	Q3-2022	2021 (9M)	2022 (9M)
Cash Flows from Operations	393,060	15,881	(79,230)	(337,428)	(359,077)	113,749	-\$45,247	-\$207,798
Cash Flows from Investing	(2,265)	(6,979)	(3,315)	(3,613)	5,502	(2,399)	-\$78	-\$12,991
Cash Flows from Financing	(5,248)	(7,039)	24,579	(9,776)	(10,043)	(10,741)	\$9,288	-\$27,556
Net Change	385,547	1,863	(57,966)	(350,817)	(363,618)	100,609	-\$36,037	-\$248,345
<b>Free Cash Flows</b>	<b>390,795</b>	<b>8,902</b>	<b>(82,545)</b>	<b>(341,041)</b>	<b>(353,575)</b>	<b>111,350</b>	<b>-\$45,325</b>	<b>-\$220,789</b>

Liquidity Analysis	2021	Q1-2022	Q2-2022	Q3-2022
Cash	\$2,078,607	\$2,080,470	\$1,729,653	\$1,830,262
Working Capital	\$4,536,851	\$4,099,272	\$3,773,961	\$3,770,593
Current Ratio	2.06	3.13	3.01	2.58
Debt / Capital	0.5%	0.5%	0.6%	0.5%
LT Debt / Capital	0.5%	0.5%	0.6%	0.5%

Source: FRC

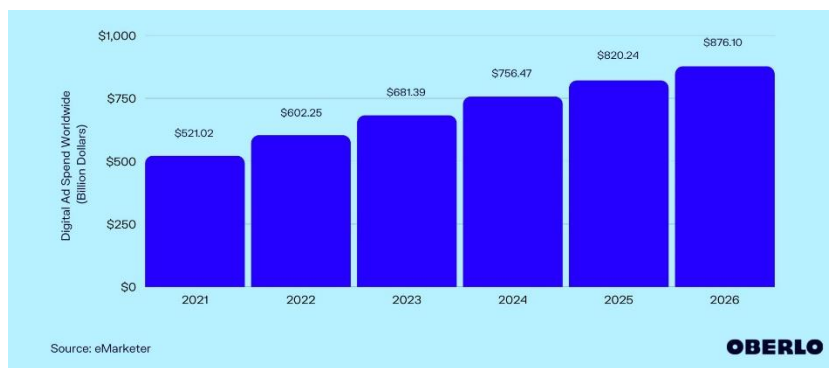
## Stock Options and Warrants

	# Options	Strike Price	Value	Warrants	Strike Price	Value
	1,106,000	\$1.02	\$1,128,120	230,000	\$0.98	\$225,400
	200,000	\$0.66	\$132,000			
	506,150	\$0.54	\$273,321			
	713,000	\$0.54	\$385,020			
	859,600	\$0.50	\$429,800			
	2,445,000	\$0.50	\$1,222,500			
	1,275,000	\$0.50	\$637,500			
	2,030,400	\$0.45	\$913,680			
<b>Total Outstanding</b>	<b>9,135,150</b>	<b>\$0.56</b>	<b>\$5,121,941</b>	<b>230,000</b>	<b>\$0.98</b>	<b>\$225,400</b>
<b>In-the-Money</b>	<b>2,030,400</b>	<b>\$0.00</b>	<b>\$913,680</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: FRC / Company Filings

## Sector Outlook

### Global Digital Ad Spending

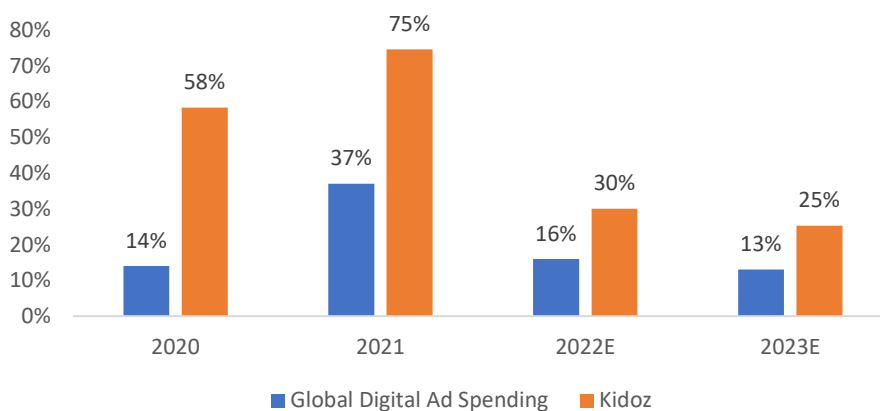


Global digital ad spending is expected to grow 16% in 2022, and 13% in 2023 vs 37% in 2021

Per Statista, **global digital advertising to children** is expected to increase from \$2.9B in 2021, to \$21.1B by 2031, reflecting a CAGR of 22%.

Kidoz's revenue growth has outpaced global digital ad spending growth: 4x in 2020, 2x in 2021, and 1.9x in 2022E

### Global Digital Ad Spending vs Kidoz' Revenue (YoY Growth)



Based on the above estimates for global digital ad spending, we are projecting Kidoz' revenue to grow 30% in 2022, and 25% in 2023

Source: FRC/Various

## FRC Projections and Valuation

As Q3 revenue was lower than expected, we are lowering our EPS projections for 2022 and 2023

	2022E (Old)	2022E (New)	2023E (Old)	2023E (New)
Revenue	\$17,052,500	\$16,244,750	\$24,381,000	\$20,283,500
EBITDA	\$1,234,649	\$1,029,106	\$2,494,153	\$2,120,740
Net Income	\$534,019	\$359,308	\$1,604,597	\$1,287,196
EPS	\$0.00	\$0.00	\$0.01	\$0.01

Source: FRC

As a result, our DCF valuation declined from C\$1.90 to C\$1.69 per share

DCF Valuation	Q4 2022E	2023E	2027E	Terminal
Funds Flow from Operations (US\$)	1,795,419	1,893,587	24,401,116	
Change in Working Capital (US\$)	(834,187)	(223,777)	(2,469,769)	
Cash from Operations (US\$)	961,232	1,669,810	21,931,347	
CAPEX (US\$)	(87,009)	(100,000)	(100,000)	
Free Cash Flow (US\$)	874,223	1,569,810	21,831,347	
Present Value (US\$)	861,446	1,374,993	11,937,788	129,430,749
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$162,813,583			
Cash - Debt (US\$)	\$1,786,594			
Fair Value (US\$)	\$164,600,177			
Shares O/S	131,580,638			
<b>Value per Share (C\$)</b>	<b>\$1.69</b>			

Source: FRC

**We are maintaining our BUY rating, and adjusting our fair value estimate from C\$1.90 to C\$1.69 per share.** We expect Kidoz' EPS to turn positive in Q4. Note that Q4 typically accounts for 50% of annual revenue. In addition, we are expecting the Fed to turn less hawkish by year-end/early next year, which should trigger a rally in tech stocks.

## Risks

We believe the company is exposed to the following key risks:

- Operates 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

<b>INCOME STATEMENT</b>			
<b>(in US\$) - YE Dec 31st</b>			
	2021	2022E	2023E
<b>Total Revenue</b>	<b>12,475,480</b>	<b>16,244,750</b>	<b>20,283,500</b>
Cost of Sales	7,143,148	9,746,850	12,170,100
<b>Gross Profit</b>	<b>5,332,332</b>	<b>6,497,900</b>	<b>8,113,400</b>
<b>Expenses</b>			
Selling & Marketing	641,393	812,238	912,758
Development	1,678,848	2,324,876	2,382,997
Stock Awareness Program	402,845	128,328	192,491
Stock Based Compensation	660,266	639,992	703,991
Compensation, Salaries & Consultation	701,964	807,259	968,710
G & A	604,882	756,103	831,713
<b>EBITDA (adjusted)</b>	<b>642,134</b>	<b>1,029,106</b>	<b>2,120,740</b>
Amortization & Depreciation	606,391	606,391	606,391
<b>EBIT</b>	<b>35,743</b>	<b>422,715</b>	<b>1,514,349</b>
Interest & Bank Charges	241	-	-
Exchange Rate and Unusual Items	(9,628)	-	-
<b>EBT</b>	<b>26,356</b>	<b>422,715</b>	<b>1,514,349</b>
Income Taxes	216,677	63,407	227,152
<b>Net Earnings for the period</b>	<b>(190,321)</b>	<b>359,308</b>	<b>1,287,196</b>
EPS	0.00	0.00	0.01
<b>BALANCE SHEET</b>			
<b>(in US\$)- YE Dec 31st</b>			
	2021	2022E	2023E
<b>Assets</b>			
Cash	2,078,607	2,732,041	4,301,851
Accounts receivable	6,627,864	7,622,044	9,146,452
Prepaid expenses	105,468	126,562	151,874
<b>Current Assets</b>	<b>8,811,939</b>	<b>10,480,646</b>	<b>13,600,177</b>
Property and equipment	20,523	20,523	20,523
Goodwill, intangible assets, and other	5,093,069	4,586,678	4,080,287
<b>Total Assets</b>	<b>13,925,531</b>	<b>15,087,847</b>	<b>17,700,987</b>
<b>Liabilities &amp; Shareholders' Equity</b>			
Accounts payables & accrued liabilities	4,243,020	5,303,775	6,629,719
Lease	32,068	32,068	32,068
<b>Current Liabilities</b>	<b>4,275,088</b>	<b>5,335,843</b>	<b>6,661,787</b>
Loans payable	47,248	-	-
Deferred tax liability	210,499	-	-
Lease	41,999	41,999	41,999
<b>Shareholder's Equity</b>			
Share Capital	49,964,919	49,964,919	49,964,919
Foreign Currency Translation	24,580	24,580	24,580
Deficit	(40,638,802)	(40,279,494)	(38,992,298)
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>13,925,531</b>	<b>15,087,847</b>	<b>17,700,987</b>

<b>STATEMENTS OF CASH FLOWS</b>			
<b>(in US\$)- YE Dec 31st</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
<b>Operating Activities</b>			
Net earnings for the period	(190,321)	359,308	1,287,196
<b>Items not involving cash</b>			
Depreciation	606,391	606,391	606,391
	<b>1,489,627</b>	<b>965,699</b>	<b>1,893,587</b>
Accounts Receivable	(2,694,324)	(994,180)	(1,524,409)
Other Assets	-	-	-
Prepaid Expenses	(15,498)	(21,094)	(25,312)
Accounts payable and accrued expenses	2,071,728	803,008	1,325,944
<b>Changes in working capital</b>	<b>(638,094)</b>	<b>(212,265)</b>	<b>(223,777)</b>
<b>Cash from (used in) operations</b>	<b>851,533</b>	<b>753,434</b>	<b>1,669,810</b>
<b>Financing activities</b>			
Proceeds from secured borrowings, net	200,000	-	-
Government Loan	(200,000)	-	-
Payment on operating lease liabilities	(29,851)	-	-
Options / Warrants	31,264	-	-
<b>Cash provided by financing activities</b>	<b>1,413</b>	<b>-</b>	<b>-</b>
<b>Investing activities</b>			
Acquisition of equipment/subsidiary	(8,152)	(100,000)	(100,000)
Long-term cash equivalent	7,768	-	-
<b>Cash used in investing activities</b>	<b>(384)</b>	<b>(100,000)</b>	<b>(100,000)</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.

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