RESEARCH CAPITAL CORPORATION

KIDOZ INC. (KIDZ-TSXV)
UPDATE
Technology

November 15, 2022

Kidoz | Broadly Inline Q3/22 | Positive Operating Cash Flow Generation

Our positive investment thesis is being validated by Kidoz's Q3/22 results. The revenue continued to grow driven by a strong demand for kid safe contextual advertising. We are encouraged by Kidoz's generation of a minor amount of positive operating cash flow instead of burning cash. We have a BUY rating on the stock with a TP of $1.00/sh.

Revenue Slightly Better and Profitability Inline in Q3/22: Kidoz reported a net revenue of $3.5mm (RCCe of $3.1mm). The revenue growth is driven by an ongoing shift from TV advertising to mobile advertising with the strong demand for kid safe contextual advertising.The company reported an adjusted gross profit of $1.2mm and a minor adj. EBITDA gain. The cash balance at the end of the quarter (Sep 30, 2022) was at $1.8mm and the company generated $0.11mm from operations.

	Q3/22		Reported
USDmm	Reported	RCC	vs. RCCe
Total revenue ($mm)	3.5	3.1	0.4
Gross profit ($mm)	1.2	1.2	0.0
Gross margin %	*35.5%*	*38.4%*	*(2.9%)*
Adjusted EBITDA ($mm)	0.0	(0.0)	0.0

Investment Thesis: We are optimistic about Kidoz for multiple reasons. Firstly, Kidoz's addressable market will grow consistently due to a structural shift of digital advertising toward In-app advertising. As Kidoz capitalizes on its programmatic ad sourcing segment, the company's ad fill rate will increase significantly, leading to its revenue acceleration. In addition, regulatory amendments focused on protecting kids' online security will boost Kidoz SDK's adoption, further expanding its addressable market. We believe Kidoz's competitive advantage is driven by its niche focus on kids' business, changing regulatory policies, and the company's brand value/trust gained over the last several years. We view Kidoz's partnership with well-known brands (Figure 6), such as Legos and Disney, as a testimony of Kidoz's strong brand value. Kidoz SDK is installed in more than 4000 apps worldwide with a monthly active user base of over 300 million. Installation of Kidoz SDK in prominent apps (Figure 5) such as Hippo and Play kids demonstrates the company's track record in delivering results for publishers. We view the current valuation of Kidoz to be compelling for long-term investors and strategic acquirers.

Potential Catalysts: We believe that macroeconomic headwinds related to the recession, inflationary pressures leading to higher interest rates, depreciation of domestic currencies, and a decline in advertising expenditure may continue to impact investor sentiments over the short term. The critical long-term catalysts for the stock price include visibility over the impact of programmatic ad sourcing and positive regulatory amendments on the revenue growth, sustainable and consistent positive EBITDA and Free cash flow generation, and a potential re-rating of the overall digital marketing/AdTech sectors.

KEY INFORMATION

Price	C$0.30
Price Target	C$1.00
Rating	BUY
Market Cap ($M)	C$39.50

MARKET DATA

KIDZ-TSXV	C$0.30
Enterprise Value ($M)	C$37.8
Cash ($M)	C$1.70
Shares Out. (MM)	131.6
Debt ($M)	C$0.10

ESTIMATES

		2021A	2022E	2023E
Revenue ($MM)	Q1	2	2	3
	Q2	2	3	3
	Q3	3	3	4
	Q4	6	7	9
	FY	12	15	18

ANALYST INFORMATION

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Company Description:

Kidoz (TSXV: KIDZ) is a contextual mobile advertising platform that provides a suite of advertising technology to enable brands to reach their target customers with complete brand safety. The company's advertising network complies with COPPA (Children's online privacy protection rule), GDPR (General data protection regulation), and other regulations adopted to protect the privacy and security of minors.

Risks:

Competition: The digital advertising market is highly fragmented and competitive. If the competitive environment is higher than our expectations, it may negatively impact profitability.

Growth Risk: If the company's products are not received well in the market or if the customer churn rate is more than expected, growth may be lower than expected, which may pose a downside risk to our valuation.

Financial Modelling Risk: Our financial modeling approach relies on assumptions and economic, statistical, mathematical, or financial theories and techniques and could differ from actual outcomes.

Technology Risk: If a new technology offers significantly better value proposition to customers, the existing technology may become obsolete, and it may impact the company's prospects.

Macroeconomic Risk: The economy of the company's key operating markets will impact customer growth. If the business conditions for the company's clients are not favorable, this may lead to lower-than-expected growth.

FINANCIAL RISK: The company currently has limited revenue and cash flow and must rely on working capital to fund operations. If the company is unable to increase revenue as expected, the Company may need to source additional capital which may not be available when needed.

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