RESEARCH CAPITAL CORPORATION

KIDOZ INC. (KIDZ-TSXV)
UPDATE
Technology
February 23, 2023

Kidoz Q4/22 Unaudited Financials Broadly in Line, Validating Bullish View

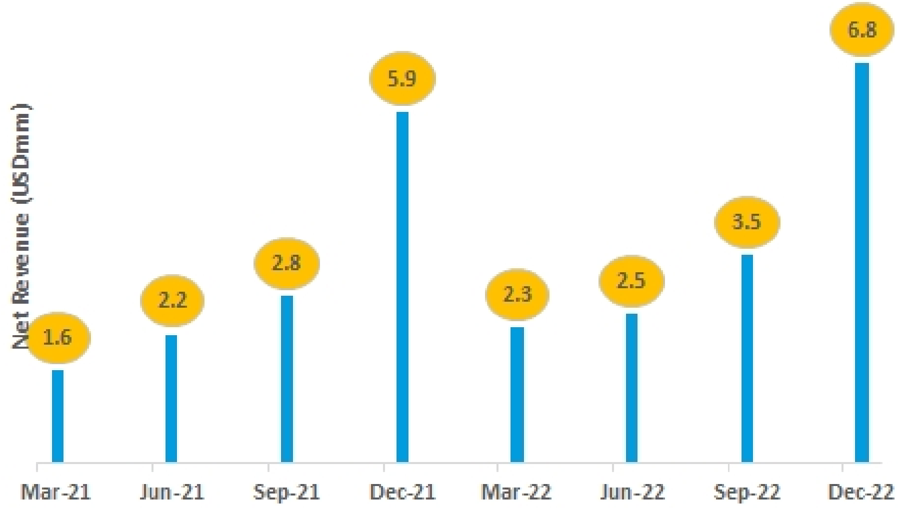
We view Kidoz's unaudited Q4/22 financials as broadly in line with our positive view on the company. Our bullish outlook on Kidoz is underpinned by its focus on in-app advertising, programmatic ad sourcing, regulatory tailwinds, strong brand value, and partnerships with high-profile brands. We see programmatic ad impact, regulatory amendments, sustained EBITDA and FCF generation, and potential sector re-rating as critical catalysts for long-term growth. Despite short-term risks, Kidoz's consistent growth and positive cash flow generation make it an attractive long-term investment.

Strong Revenue Growth due to Seasonality: Kidoz reported a net revenue of $6.8mm (RCCe of $6.9mm). 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 a minor adj. EBITDA gain of $0.7mm (RCCe of $1.4mm) The cash balance at the end of the quarter was $2.3mm (compared to that of $1.8mm at the end of Sep 30, 2022).

	Q4/22	
USDmm	Reported	RCC
Total revenue	6.8	6.9
Adj EBITDA	0.7	1.4

Source: Company Filings, Research Capital

We have not updated our model yet as we await the company to release audited financial statements.



Investment Thesis: We maintain a bullish outlook on Kidoz for several reasons. Firstly, the company is poised to benefit from a structural shift in digital advertising towards In-app advertising, which is expected to fuel growth in Kidoz's addressable market.

RATING & TARGET PRICE

Rating	BUY
Price	C$0.30
Price Target	C$1.00
Market Cap ($M)	C$39.50
Projected Return	233.33%

MARKET DATA

KIDZ-TSXV	C$0.30
Enterprise Value ($M)	C$37.8
Cash ($M)	$2.30
Shares Out. (MM)	131.6
Debt ($M)	$0.10

ESTIMATES

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

ANALYST INFORMATION

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Additionally, Kidoz's programmatic ad sourcing segment is well-positioned to increase its ad fill rate, thereby accelerating revenue growth.

Moreover, Kidoz's SDK adoption is expected to increase due to regulatory amendments aimed at protecting children's online safety, further expanding its addressable market. We believe Kidoz's niche focus on the kids' business, coupled with changing regulatory policies, and the company's brand value/trust built over several years, provides it with a sustainable competitive advantage.

Furthermore, Kidoz's partnership with high-profile brands, including Legos and Disney, underscores the company's robust brand value. Kidoz's SDK is installed in over 4000 apps worldwide, with a monthly active user base of over 300 million. The company's track record in delivering results for publishers is exemplified by the installation of Kidoz SDK in prominent apps like Hippo and Play Kids.

We find Kidoz's current valuation to be attractive for long-term investors and strategic acquirers. Overall, we are optimistic about Kidoz's growth prospects, driven by its well-positioned programmatic ad sourcing segment, regulatory tailwinds, and solid brand value/trust.

Catalysts: Our analysis suggests that the current macroeconomic headwinds, including the impact of the recession, inflationary pressures leading to higher interest rates, currency depreciation, and reduced advertising expenditure, may continue to affect investor sentiments in the near term.

However, the long-term prospects for the stock price depend on several critical catalysts. These include increased visibility regarding the impact of programmatic ad sourcing and positive regulatory amendments on revenue growth, sustained positive EBITDA, and free cash flow generation. Furthermore, a potential re-rating of the overall digital marketing/AdTech sectors may also drive long-term growth.

Therefore, while short-term risks remain, we believe that these catalysts provide a compelling case for long-term investors to consider the stock. The company's ability to weather macroeconomic headwinds while generating consistent free cash flow and EBITDA growth would position it well for future success.

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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