

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

**BUY**

**Current Price: C\$0.27**

**Fair Value: C\$1.18**

**Risk\*: 4**

**Expanding Target Market Through a New Platform for Adult Gamers**

**Sector/Industry: Ad Tech**

[Click here for more research on the company and to share your views](#)

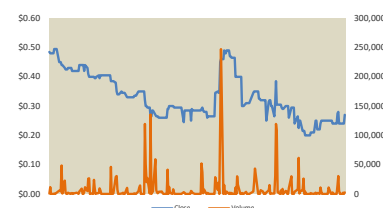
**Highlights**

- **2022 revenue was up 21% YoY**, but 7% below our estimate. KIDZ's revenue growth was significantly higher than **global digital ad spending growth of 8.6%** (Source: eMarketer), and in line with the growth of global digital ad spending to children of 22% (Source: Statista). For comparison, we note that YouTube's (NASDAQ: GOOGL) ad revenue was up 2%, and **Meta's (NASDAQ: META) ad revenue was down 1% in 2022**.
- In 2022, the company had 2.11B paid impressions, up 46% YoY, and 1.14B video views, up 60% YoY. In Q4, we estimate that KIDZ generated \$0.008/ad view in revenue (down 15% YoY), **which we believe is on the higher end of 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-\$0.30/ad view.
- 2022 EPS fell YoY (from -\$0.001 to -\$0.01), falling below our estimate of \$0.004, due to higher selling and marketing expenses (62% YoY), development expenses (49% YoY), and lower gross margins (down 9 ppt), due to volume discounts and increased spending on content/software development.
- Last month, KIDZ launched a new ad platform (Prado), expanding **its target audience from kids to teenagers and adults**.
- **TikTok was recently fined £12.7M** by the UK's data regulator for failing to protect the privacy of children. We continue to believe that KIDZ has a major competitive advantage, as its platform is compliant with the U.S.' COPPA, the EU's GDPR-K, and other kid-safe regulations.
- **Global digital ad spending is expected to grow by 10.5% this year, up from 8.6% in 2022** (Source: eMarketer). We are expecting the Fed to slow/pause rate hikes in the coming months. Lower yields **should trigger a rally in tech stocks**.

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Head of Research

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Equity Analyst

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



	YTD	12M
KIDZ	-23%	-44%
TSXV	8%	-26%

**Company Data**

52-Week Range	C\$0.20 - C\$0.55
Shares O/S	132M
Market Cap.	C\$35M
Current Yield	N/A
P/E (forward)	N/A
P/B	4.1x

Key Financial Data (FYE - Dec 31) (US\$)	2022	2023E	2024E
Cash	2,363,530	2,684,455	3,882,922
Working Capital	4,147,176	4,603,899	6,215,176
Total Assets	14,387,083	15,638,918	19,843,224
LT Debt to Capital	0.0%	0.0%	0.0%
Revenue	15,097,056	19,210,000	24,750,000
Net Income	(1,347,113)	(106,673)	1,047,882
EPS	-0.01	-0.00	0.01

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

## Financials

We were pleased to see Kidoo diversifying its revenue-base outside North America

In 2022, Western Europe accounted for 38% of revenue vs 32% in 2021

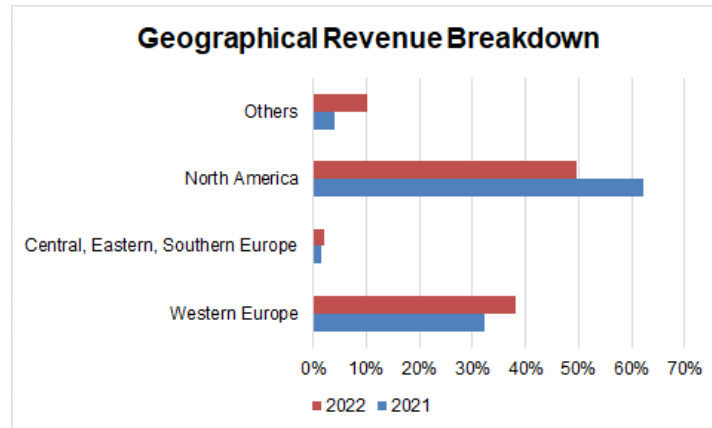
2022 revenue was up 21% YoY, but 7% lower than our forecast

Gross margins declined YoY by 9 ppt (6 ppt below our forecast) due to volume discounts

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

Healthy balance sheet, with \$4.15M in working capital, and negligible debt

None of the outstanding options and warrants are in the money



Source: Company

STATEMENTS OF OPERATIONS										
Y/E Dec 31	Q3-2021	Q3-2022	YoY	Q4-2021	Q4-2022	QoQ	YoY	2021	2022	YoY
<b>Revenue</b>	<b>2,759,508</b>	<b>3,454,824</b>	<b>25%</b>	<b>5,868,717</b>	<b>6,669,378</b>	<b>93%</b>	<b>14%</b>	<b>\$12,484,639</b>	<b>\$15,097,056</b>	<b>21%</b>
Cost of sales	1,588,108	2,260,242	42%	3,538,126	4,718,242	109%	33%	\$7,152,307	\$9,973,211	39%
Development expense	477,559	613,196	28%	497,950	722,988	18%	45%	\$1,678,848	\$2,496,877	49%
Selling & marketing expense	156,122	222,379	42%	175,439	385,532	73%	120%	\$641,393	\$1,039,713	62%
G&A expense	145,765	178,717	23%	131,061	180,206	1%	37%	\$604,882	\$760,936	26%
<b>EBITDA (adjusted)</b>	<b>321,685</b>	<b>89,284</b>	<b>-72%</b>	<b>1,403,991</b>	<b>599,658</b>	<b>572%</b>	<b>-57%</b>	<b>\$1,705,245</b>	<b>\$65,538</b>	<b>-96%</b>
<b>Net Profit (Loss)</b>	<b>(75,040)</b>	<b>(313,774)</b>	<b>318%</b>	<b>776,840</b>	<b>419,380</b>	<b>234%</b>	<b>-46%</b>	<b>-\$190,321</b>	<b>-\$1,347,113</b>	<b>608%</b>
EPS	(0.001)	(0.002)	318%	0.006	0.003	234%	-46%	-\$0.001	-\$0.010	607%

Margins	Q3-2021	Q3-2022	Q4-2021	Q4-2022	2021	2022
<b>Gross</b>	<b>44%</b>	<b>36%</b>	<b>40%</b>	<b>31%</b>	<b>43%</b>	<b>34%</b>
EBITDA (adjusted)	12%	3%	24%	9%	14%	0%
EBIT	-3%	-7%	17%	3%	0%	-9%
<b>Net</b>	<b>-3%</b>	<b>-9%</b>	<b>13%</b>	<b>6%</b>	<b>-2%</b>	<b>-9%</b>
Development expense	17%	17%	8%	11%	13%	17%
Selling & marketing expense	6%	6%	3%	6%	5%	7%
G&A expense	5%	5%	2%	3%	5%	5%

Summary of Cash Flows	2020	2021	2022
Operating	\$256,978	\$851,533	\$433,745
Investing	-\$21,537	-\$384	-\$26,533
Financing	\$23,392	\$1,413	-\$122,289
<b>Net</b>	<b>\$258,833</b>	<b>\$852,562</b>	<b>\$284,923</b>
<b>Free Cash Flows to Firm (FCF)</b>	<b>\$235,441</b>	<b>\$851,149</b>	<b>\$407,212</b>

Liquidity & Capital Structure	2020	2021	2022
Cash	\$1,226,045	\$2,078,607	\$2,363,530
Working Capital	\$3,071,545	\$4,536,851	\$4,147,176
Current Ratio	2.41	2.06	1.73
Total Debt	\$47,089	\$47,248	\$44,296
Total Debt / Capital	0.5%	0.5%	0.5%

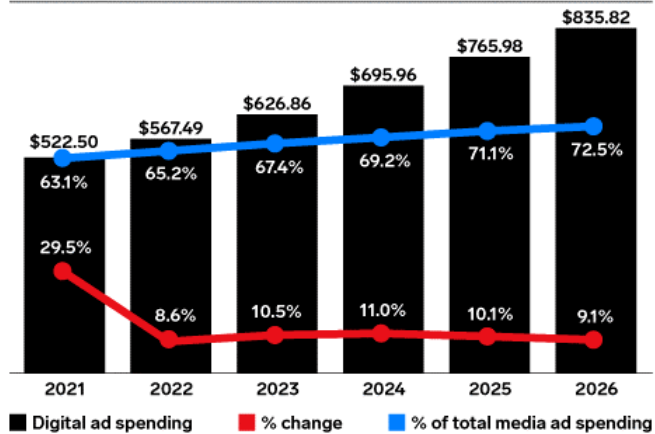
	# Options	Strike Price	Value	Warrants	Strike Price	Value
<b>Total Outstanding</b>	<b>4,358,324</b>	<b>\$0.55</b>	<b>\$2,405,811</b>	<b>230,000</b>	<b>\$0.98</b>	<b>\$225,400</b>
<b>In-the-Money</b>	-	-	-	-	-	-

Source: Company Filings/ FRC

## Sector Outlook

Global digital ad spending is projected to grow 10.5% this year, up from 8.6% in 2022

**Digital Ad Spending Worldwide, 2021-2026**  
billions, % change, and % of total media ad spending

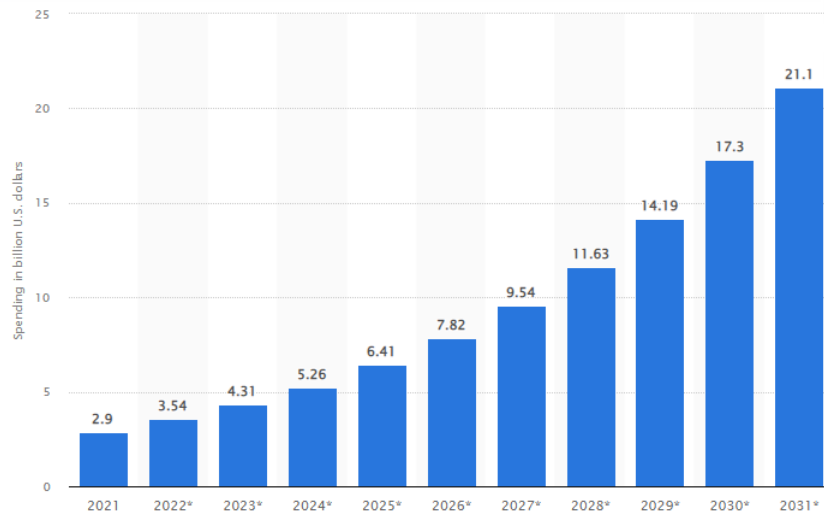


Note: Includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; excludes SMS, MMS, and P2P messaging-based advertising  
Source: eMarketer, Oct 2022

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eMarketer | InsiderIntelligence.com

**Spending on digital advertising to children worldwide**  
(in billion U.S. dollars)



Source Statista

Global digital ad spending to children is projected to grow at a CAGR of 22% this decade

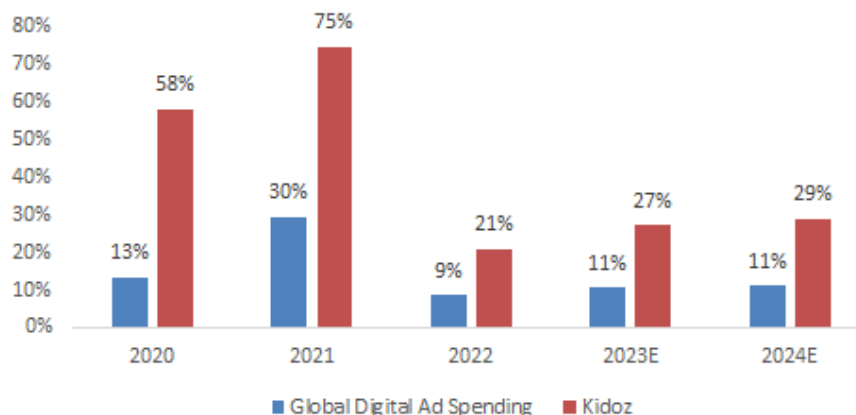
KIDZ's revenue growth has outpaced global digital ad spending growth: 4.4x in 2020, 2.5x in 2021, and 2.4x in 2022

Based on the above-mentioned estimates for global digital ad spending, we are projecting KIDZ's revenue to grow 27% in 2023, and 29% in 2024

As 2022 revenue was lower than expected, we are lowering our 2023 revenue forecast by 5%, and our EPS forecast from \$0.01 to -\$0.001

Our DCF valuation declined by 7%, to C\$1.57/share

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



Source: FRC / Various

## FRC Projections and Valuation

	2023E (Old)	2023E (New)	Introducing 2024E
Revenue	\$20,283,500	\$19,210,000	\$24,750,000
EBITDA	\$2,120,740	\$460,704	\$1,819,004
Net Income	\$1,287,196	-\$106,673	\$1,047,882
EPS	\$0.01	-\$0.00	\$0.01

Source: FRC

DCF Valuation	2023E	2024E	2027E	Terminal
Funds Flow from Operations (US\$)	479,529	1,634,084	21,868,953	
Change in Working Capital (US\$)	(91,451)	(412,811)	(2,118,611)	
Cash from Operations (US\$)	388,078	1,221,273	19,750,342	
CAPEX (US\$)	(22,806)	(22,806)	(100,000)	
Free Cash Flow (US\$)	365,272	1,198,467	19,650,342	
Present Value (US\$)	334,389	975,235	11,230,411	121,761,293
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$150,678,666			
Cash - Debt (US\$)	\$2,319,234			
Fair Value (US\$)	\$152,997,900			
Shares O/S	131,304,499			
<b>Value per Share (C\$)</b>	<b>\$1.57</b>			

Source: FRC

**Digital AdTech Companies**

Company	Revenue Growth	
	YoY	Forward EV/R (x)
Viant Technology Inc.	-12.0%	0.46
Kidoz Inc.	20.9%	1.25
Criteo SA	10.5%	1.51
Omnicom Group Inc.	0.0%	1.54
The Interpublic Group of Companies Inc.	6.7%	1.70
LiveRamp Holdings Inc.	19.3%	1.86
Pubmatic Inc.	13.0%	2.25
AppLovin Corp.	0.9%	2.99
Magnite Inc.	23.2%	3.24
Alphabet Inc.	9.8%	4.22
META Platforms Inc.	-1.1%	4.36
Integral Ad Science Holding Corp.	26.2%	5.47
The Trade Desk Inc.	31.9%	15.49
<b>Average</b>	<b>11.5%</b>	<b>3.07</b>

Source: S&P Capital IQ / FRC

In 2022, KIDZ was the fourth fastest growing company in our list of ad companies

KIDZ's forward EV/R of 1.3x is significantly lower than the sector average of 3.1x

Using the average sector EV/R, we are introducing our comparables valuation of C\$0.79/share in this report

**We are maintaining our BUY rating, and adjusting our fair value estimate from C\$1.69 to C\$1.18 per share.** We are expecting revenue to grow 27% this year, up from 21% last year. Upcoming catalysts should come from progress updates on Prado. We are expecting the Fed to turn less hawkish in the coming months, 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 (Speculative)

## Appendix

<b>INCOME STATEMENT</b>				
<b>(in US\$) - YE Dec 31st</b>				
	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>Total Revenue</b>	<b>12,484,639</b>	<b>15,097,056</b>	<b>19,210,000</b>	<b>24,750,000</b>
Cost of Sales	7,152,307	9,973,211	12,486,500	15,468,750
<b>Gross Profit</b>	<b>5,332,332</b>	<b>5,123,845</b>	<b>6,723,500</b>	<b>9,281,250</b>
<b>Expenses</b>				
Selling & Marketing	641,393	1,039,713	1,056,550	1,113,750
Development	1,678,848	2,496,877	2,559,299	2,623,281
Stock Awareness Program	402,845	161,332	241,998	362,997
Stock Based Compensation	660,266	696,248	731,060	767,613
Compensation, Salaries & Consultation	701,964	760,781	836,859	920,545
G & A	604,882	760,936	837,030	1,674,059
<b>EBITDA</b>	<b>642,134</b>	<b>-792,042</b>	<b>460,704</b>	<b>1,819,004</b>
Amortization & Depreciation	606,391	586,202	586,202	586,202
<b>EBIT</b>	<b>35,743</b>	<b>-1,378,244</b>	<b>-125,498</b>	<b>1,232,802</b>
Interest & Bank Charges	241	185	-	-
Exchange Rate and Unusual Items	(9,628)	(119,543)	-	-
<b>EBT</b>	<b>26,356</b>	<b>-1,497,602</b>	<b>-125,498</b>	<b>1,232,802</b>
Income Taxes	216,677	-150,489	-18,825	184,920
<b>Net Earnings for the period</b>	<b>(190,321)</b>	<b>-1,347,113</b>	<b>-106,673</b>	<b>1,047,882</b>
EPS	-0.00	-0.01	-0.00	0.01
<b>BALANCE SHEET</b>				
<b>(in US\$)- YE Dec 31st</b>				
	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>Assets</b>				
Cash	2,078,607	2,363,530	2,684,455	3,882,922
Accounts receivable	6,627,864	7,400,282	8,880,338	12,432,474
Prepaid expenses	105,468	71,248	85,498	102,597
<b>Current Assets</b>	<b>8,811,939</b>	<b>9,835,060</b>	<b>11,650,291</b>	<b>16,417,993</b>
Property and equipment	20,523	33,522	33,522	33,522
Goodwill, intangible assets, and other	5,093,069	4,518,501	3,955,105	3,391,709
<b>Total Assets</b>	<b>13,925,531</b>	<b>14,387,083</b>	<b>15,638,918</b>	<b>19,843,224</b>
<b>Liabilities &amp; Shareholders' Equity</b>				
Accounts payables & accrued liabilities	4,219,655	5,611,421	7,014,276	10,170,701
Derivative	23,365	51	-	-
Lease	32,068	32,116	32,116	32,116
Loans payable/ borrowings	-	44,296	-	-
<b>Current Liabilities</b>	<b>4,275,088</b>	<b>5,687,884</b>	<b>7,046,392</b>	<b>10,202,817</b>
Loans payable	47,248	-	-	-
Deferred tax liability	210,499	-	-	-
Lease	41,999	7,440	7,440	7,440
<b>Shareholder's Equity</b>				
Share Capital	49,964,919	50,653,094	50,653,094	50,653,094
Foreign Currency Translation	24,580	24,580	24,580	24,580
Deficit	(40,638,802)	(41,985,915)	(42,092,588)	(41,044,707)
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>13,925,531</b>	<b>14,387,083</b>	<b>15,638,918</b>	<b>19,843,224</b>

<b>STATEMENTS OF CASH FLOWS</b> <b>(in US\$)- YE Dec 31st</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>
<b>Operating Activities</b>				
Net earnings for the period	(190,321)	-1,347,113	-106,673	1,047,882
<b>Items not involving cash</b>				
Depreciation	606,391	586,202	586,202	586,202
Gain on derivative liability	(60,207)	(23,314)	-	-
Bad Debt expense	-	-	-	-
Deferred income tax expense	210,499	(210,499)	-	-
Realized foreign exchange loss	-	-	-	-
Unrealized foreign exchange loss	134	(1,052)	-	-
Stock Based Compensation	660,266	696,248	-	-
	<b>1,489,627</b>	<b>-299,528</b>	<b>479,529</b>	<b>1,634,084</b>
Accounts Receivable	(2,694,324)	(772,418)	(1,480,056)	(3,552,135)
Other Assets	-	-	-	-
Prepaid Expenses	(15,498)	34,220	(14,250)	(17,100)
Accounts payable and accrued expenses	2,071,728	1,471,471	1,402,855	3,156,424
<b>Changes in working capital</b>	<b>(638,094)</b>	<b>733,273</b>	<b>(91,451)</b>	<b>(412,811)</b>
<b>Cash from (used in) operations</b>	<b>851,533</b>	<b>433,745</b>	<b>388,078</b>	<b>1,221,273</b>
<b>Financing activities</b>				
Proceeds from secured borrowings, net	200,000	-	(44,347)	-
Equity	-	(87,778)	-	-
Payment on operating lease liabilities	(29,851)	(34,511)	-	-
<b>Cash provided by financing activities</b>	<b>1,413</b>	<b>(122,289)</b>	<b>(44,347)</b>	<b>-</b>
<b>Investing activities</b>				
Acquisition of equipment/subsidiary	(8,152)	(22,806)	(22,806)	(22,806)
Security deposits	-	(3,727)	-	-
<b>Cash used in investing activities</b>	<b>(384)</b>	<b>(26,533)</b>	<b>(22,806)</b>	<b>(22,806)</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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The distribution of FRC's ratings are as follows: BUY (65%), HOLD (4%), SELL / SUSPEND (31%).

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