Kidoz Q123: Programmatic Ad Revenue Stable Amidst Seasonal & Market Challenges

Kidoz faced some challenges in Q1/23, with muted results primarily attributed to seasonal factors and weaker demand in the ad-tech and content revenue segments. However, amidst these clouds, there was a silver lining: the programmatic ad revenue segment continued to grow, indicating its importance in driving long-term growth for the company.

We maintain our optimistic stance on Kidoz's future prospects, fueled by its strategic market positioning, favorable regulatory tailwinds, strong partnerships, and attractive valuation. In light of this, we are pleased to reiterate our Buy rating on the stock, while adjusting our DCF based target price to $0.90 per share from the previous target of $1.00 per share.

Lower Revenue Growth due to Seasonality and Weakness in the Market: In the first quarter of 2023, ad tech advertising revenue dropped by 29% to $1,538,046 compared to the previous year's first quarter. Programmatic advertising revenue, however, saw a positive trend, reaching $68,070, surpassing the $26,954 recorded in Q1 2022. Conversely, content revenue declined by 36% to $67,569 compared to Q1 2022.

The decrease in total revenue is primarily due to market weakness and non-renewal of campaigns in Q1 2023. The increase in programmatic revenue can be attributed to active promotion and the addition of sales and support staff in the previous fiscal year. The decline in content revenue is linked to a decrease in sales of kids' tablets by original equipment manufacturers (OEMs). The cash balance at the end of the quarter was at $2.3mm.

Kidoz Q123 Summary

	Q1/23	
	Reported	RCC
Total revenue ($mm)	1.7	2.6
Gross profit ($mm)	0.7	1.0
Gross margin %	*40.0%*	*37.9%*
Adjusted EBITDA ($mm)	(0.8)	(0.3)

Source: Research Capital

Change in Estimates: We revised our financial model to factor Q1/23 and our revised expectations. Our revised TP of $0.9/sh is driven by lower estimates.Our Target Price is based on the DCF valuation methodology using a cost of capital (WACC) of 13.5% and a terminal growth rate of 2%. We use the capital asset pricing model (CAPM) to calculate WACC. We assume a risk-free rate of 2%. We assume a Beta of 2.0. We use a market risk premium of 6%. We use an after-tax cost of debt of 9.5%.

RATING & TARGET PRICE

Rating	BUY
Price	C$0.30
Price Target	C$0.90
Market Cap ($M)	C$39.50
Projected Return	200.0%

MARKET DATA

KIDZ-TSXV	C$0.30
Enterprise Value ($M)	C$38
Cash ($M)	$2.30
Shares Out. (MM)	131.6
Debt ($M)	$0.10

ESTIMATES

		2023E
Revenue ($MM)	Q1	2
	Q2	4
	Q3	4
	Q4	8
	FY	18

ANALYST INFORMATION

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Old versus New estimates

	2023e		2024e	
	New	Old	New	Old
Total revenue ($mm)	17.5	18.4	23.3	23.8
Gross Profit ($mm)	6.6	6.9	8.6	8.7
Gross margin %	*37.5%*	*37.5%*	*36.7%*	*36.7%*
EBITDA ($mm)	0.6	2.0	2.4	3.8

Source: Research Capital

Investment Thesis: We are bullish on Kidoz for several reasons. The company stands to benefit from the shift to In-app advertising and has a strong programmatic ad sourcing segment. Regulatory changes and trusted brand partnerships further enhance its competitive edge.

Catalysts: Despite short-term macroeconomic challenges, Kidoz has positive catalysts, including revenue growth from programmatic ads and regulatory amendments. Consistent EBITDA and free cash flow generation, along with potential sector re-rating, offer long-term growth potential. In summary, Kidoz's market positioning, regulatory tailwinds, and strong partnerships make it an attractive investment option, despite short-term risks.

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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