

## Kidoz Inc.

(TSXV: KIDZ / OTC: KDOZF)

### Predicting a Recovery in Ad Spending in H2-2023

**BUY**

**Current Price: C\$0.28**

**Fair Value: C\$1.02**

**Risk\*: 4**

**Sector/Industry: Ad Tech**

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

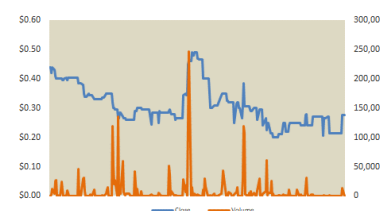
### Highlights

- **Q1 revenue was down 27% YoY**, and 15% below our estimate, amid lower-than-expected ad spending. The revenue of major digital ad platforms, such as YouTube (NASDAQ: GOOGL) and Meta (NASDAQ: META), had declined in Q1 as well.
- We are expecting a recovery in global ad spending in the second half of the year, driven by cooling inflation, lower interest rates, and an uptick in global GDP growth. eMarketer **estimates global digital ad spending will grow by 10.5% this year, up from 8.6% in 2022.**
- KIDZ has indicated that activities have picked up since the beginning of Q2; management is expecting revenue to grow significantly in the coming quarters.
- Q1s typically accounts for just 10%-15% of annual revenue. We believe a recovery in H2-2023 **should be able to more than offset the negative impact of a soft H1.**
- Healthy balance sheet, with negligible debt.
- Earlier this year, KIDZ launched a new ad platform (Prado), expanding **its target audience from kids to teenagers and adults.** We believe any positive updates on this initiative should serve as near-term catalysts.
- KIDZ's forward EV/R of 1.4x is **significantly lower than the sector average of 3.0x.**

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



	YTD	12M
KIDZ	-21%	-38%
TSXV	7%	-15%

#### Company Data

52-Week Range	C\$0.20 - C\$0.55
Shares O/S	131M
Market Cap.	C\$36M
Current Yield	N/A
P/E (forward)	N/A
P/B	4.7x

Key Financial Data (FYE – Dec 31) (US\$)	2022	2023E	2024E
Cash	2,363,530	2,383,210	3,460,860
Working Capital	4,147,176	4,034,324	5,139,992
Total Assets	14,387,083	14,227,630	16,313,043
LT Debt to Capital	0.0%	0.0%	0.0%
Revenue	15,097,056	17,552,080	21,375,000
Net Income	(1,347,113)	(564,791)	542,272
EPS	-0.01	-0.00	0.00

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

## Financials

Q1 revenue was down 27% YoY, and 15% lower than our forecast

As a result, EBITDA and EPS deteriorated, and were significantly lower than expected

Gross margins increased 3.7 ppt (2 ppt higher than our forecast), and remain higher than the sector average

FCF declined due to lower EBITDA

Revenue	Q1-2022	Q1-2023	YoY
Western Europe	662,606	582,422	-12%
Central, Eastern, Southern Europe	54,205	63,264	17%
North America	1,082,289	832,701	-23%
Others	488,371	195,299	-60%
<b>Total</b>	<b>2,287,471</b>	<b>1,673,686</b>	<b>-27%</b>

Operating Summary	Q1-2021	Q1-2022	Q1-2023	YoY
Revenue	\$1,557,942	\$2,287,471	\$1,673,685	-27%
Gross Profit	\$685,041	\$830,895	\$669,969	-19%
Selling & Marketing	\$128,688	\$180,014	\$327,522	82%
G&A	\$706,251	\$1,223,061	\$1,273,075	4%
EBITDA	-\$72,877	-\$412,182	-\$818,654	99%
EBITDA (excl. development costs)	\$264,416	\$104,457	-\$74,321	-171%
Net Loss	-\$347,044	-\$731,042	-\$1,066,612	46%
EPS	-\$0.00	-\$0.01	-\$0.01	

Margins	Q1-2021	Q1-2022	Q1-2023	Sector (Advertising)
Gross	44.0%	36.3%	40.0%	25.7%
EBITDA	-4.7%	-18.0%	-48.9%	6.2%
EBIT	-19.8%	-31.5%	-64.5%	4.5%
Net	-22.3%	-32.0%	-63.7%	2.5%

Expenses / Sales	Q1-2021	Q1-2022	Q1-2023
Selling & Marketing	8.3%	7.9%	19.6%
Development	21.6%	22.6%	44.5%
Stock Based Compensation	4.9%	9.2%	10.1%
Compensation, Salaries & Consultation	8.6%	12.2%	10.1%
G & A	10.1%	9.4%	11.4%
<b>Total</b>	<b>53.6%</b>	<b>61.3%</b>	<b>95.6%</b>

Summary of Cash Flows	Q1-2021	Q1-2022	Q1-2023
Cash Flows from Operations	393,060	15,881	(46,996)
Cash Flows from Investing	(2,265)	(6,979)	(1,496)
Cash Flows from Financing	(5,248)	(7,039)	(10,281)
Net Change	385,547	1,863	(58,773)
<b>Free Cash Flows</b>	<b>390,795</b>	<b>8,902</b>	<b>(48,492)</b>

Source: FRC/Company

Healthy balance sheet, with negligible debt

Liquidity Analysis	2021	2022	Q1-2023	Sector (Advertising)
Cash	\$2,078,607	\$2,363,530	\$2,304,757	
Working Capital	\$4,536,851	\$4,147,176	\$3,331,745	
Current Ratio	2.06	1.73	2.33	0.60
Debt / Capital	0.5%	0.5%	0.6%	22.6%
LT Debt / Capital	0.5%	0.0%	0.0%	13.4%
EBIT Interest Coverage Ratio	n/a	n/a	n/a	7.8

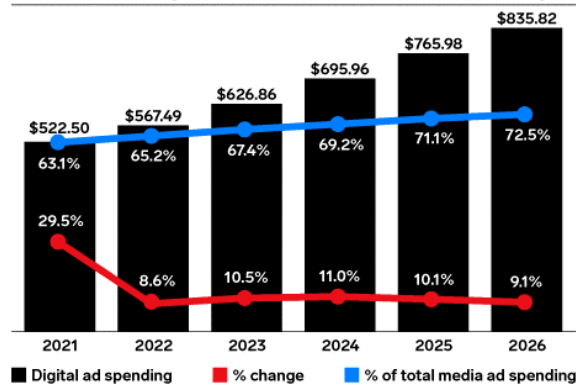
None of the outstanding options and warrants are in the money

	# Options	Strike Price	Value	Warrants	Strike Price	Value
<b>Total Outstanding</b>	<b>10,384,000</b>	<b>\$0.53</b>	<b>\$5,552,620</b>	<b>230,000</b>	<b>\$0.98</b>	<b>\$225,400</b>
<b>In-the-Money</b>	-	-	-	-	-	-

Source: FRC/Company

### Sector Outlook

**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

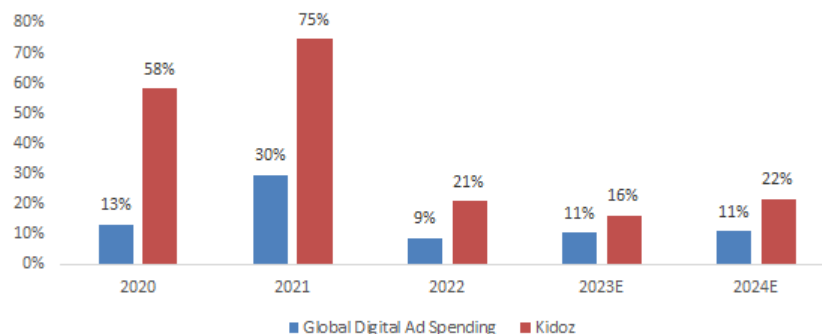
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Global digital ad spending is projected to grow 10.5% this year, up from 8.6% in 2022

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 KIDZ's Q1 revenue, and the above-mentioned estimates for global digital ad spending, we are projecting KIDZ's revenue to grow 16% in 2023 (previously 27%), and 22% in 2024 (previously 29%)

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



Source: FRC / Various

## FRC Projections and Valuation

As Q1 was weaker than expected, we are lowering our revenue and EPS forecasts

FRC Forecasts	2023E (Old)	2023E (New)	2024E (Old)	2024E (New)
Revenue	\$19,210,000	\$17,552,080	\$24,750,000	\$21,375,000
EBITDA	\$460,704	-\$78,258	\$1,819,004	\$1,224,169
Net Profit (Loss)	-\$106,673	-\$564,791	\$1,047,882	\$542,272
EPS	-\$0.00	-\$0.00	\$0.01	\$0.00

Our DCF valuation declined from C\$1.57 to C\$1.47/share

DCF Valuation	2023E	2024E	2027E	Terminal
Funds Flow from Operations (US\$)	827,392	1,128,474	20,243,221	
Change in Working Capital (US\$)	(582,107)	(28,018)	(1,569,340)	
Cash from Operations (US\$)	245,286	1,100,456	18,673,881	
CAPEX (US\$)	(21,310)	(22,806)	(100,000)	
Free Cash Flow (US\$)	223,976	1,077,650	18,573,881	
Present Value (US\$)	205,039	876,922	10,615,200	115,091,115
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$139,807,279			
Cash - Debt (US\$)	\$2,260,413			
Fair Value (US\$)	\$142,067,692			
Shares O/S	131,304,499			
<b>Value per Share (C\$)</b>	<b>\$1.47</b>			

Source: FRC

We are expecting KIDZ's revenue to grow faster than most ad companies on this list

### Digital AdTech Companies

KIDZ's forward EV/R of 1.4x (previously 1.3x) is significantly lower than the sector average of 3.0x (previously 3.1x)

Company	2022 Revenue Growth	2023 Revenue Growth Forecast	Forward EV/R
Viant Technology Inc.	-12%	7%	0.46
Omnicom Group Inc.	0%	3%	1.47
<b>Kidoz Inc.</b>	<b>21%</b>	<b>16%</b>	<b>1.38</b>
Criteo SA	11%	9%	1.59
The Interpublic Group of Companies Inc.	4%	3%	1.77
LiveRamp Holdings Inc.	13%	3%	1.90
PubMatic Inc.	13%	3%	2.89
AppLovin Corp.	90%	4%	3.80
Magnite Inc.	23%	8%	3.82
Alphabet Inc.	10%	6%	4.93
META Platforms Inc.	-1%	8%	5.30
Integral Ad Science Holding Corp.	26%	13%	6.65
The Trade Desk Inc.	32%	22%	17.31
<b>Average</b>	<b>18%</b>	<b>8%</b>	<b>3.00</b>

Source: S&P Capital IQ / FRC

Using the average sector EV/R, and our updated 2023 revenue forecast, we arrived at a revised comparables valuation of C\$0.57/share (previously C\$0.79/share)

**We are maintaining our BUY rating, and adjusting our fair value estimate from C\$1.18 to C\$1.02 per share (the average of our DCF and comparables valuations).** Upcoming catalysts should come from any positive progress updates

on Prado. Due to increased odds of rate cuts in H2-2023, we are **expecting a rally in tech stocks.**

### Risks

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

*Maintaining our risk  
rating of 4  
(Speculative)*

- Operates in a highly competitive space
- Unfavorable changes in regulations
- **Ability to attract publishers and brands will be key to long-term growth**
- FOREX

## Appendix

<b>INCOME STATEMENT</b>				
(in US\$) - YE Dec 31st	2021	2022	2023E	2024E
<b>Total Revenue</b>	<b>12,484,639</b>	<b>15,097,056</b>	<b>17,552,080</b>	<b>21,375,000</b>
Cost of Sales	7,152,307	9,973,211	10,882,290	13,038,750
<b>Gross Profit</b>	<b>5,332,332</b>	<b>5,123,845</b>	<b>6,669,790</b>	<b>8,336,250</b>
<b>Expenses</b>				
Selling & Marketing	641,393	1,039,713	1,310,088	1,282,500
Development	1,678,848	2,496,877	2,977,332	3,051,765
Stock Awareness Program	402,845	161,332	227,668	273,202
Stock Based Compensation	660,266	696,248	447,896	470,291
Compensation, Salaries & Consultation	701,964	760,781	875,586	897,476
G & A	604,882	760,936	909,478	1,136,847
<b>EBITDA</b>	<b>642,134</b>	<b>-792,042</b>	<b>-78,258</b>	<b>1,224,169</b>
Amortization & Depreciation	606,391	586,202	586,202	586,202
<b>EBIT</b>	<b>35,743</b>	<b>-1,378,244</b>	<b>-664,460</b>	<b>637,967</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>-664,460</b>	<b>637,967</b>
Income Taxes	216,677	-150,489	-99,669	95,695
<b>Net Earnings for the period</b>	<b>-190,321</b>	<b>-1,347,113</b>	<b>-564,791</b>	<b>542,272</b>
EPS	-0.00	-0.01	-0.00	0.00
<b>BALANCE SHEET</b>				
(in US\$)- YE Dec 31st	2021	2022	2023E	2024E
<b>Assets</b>				
Cash	2,078,607	2,363,530	2,383,210	3,460,860
Accounts receivable	6,627,864	7,400,282	7,770,296	9,324,355
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>10,239,003</b>	<b>12,887,812</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>14,227,630</b>	<b>16,313,043</b>
<b>Liabilities &amp; Shareholders' Equity</b>				
Accounts payables & accrued liabilities	4,219,655	5,611,421	6,172,563	7,715,704
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>6,204,679</b>	<b>7,747,820</b>
Lease	41,999	7,440	7,440	7,440
<b>Shareholder's Equity</b>				
Share Capital	49,964,919	50,653,094	50,541,637	50,541,637
Foreign Currency Translation	24,580	24,580	24,580	24,580
Deficit	(40,638,802)	(41,985,915)	(42,550,706)	(42,008,434)
<b>Total Liabilities &amp; SE</b>	<b>13,925,531</b>	<b>14,387,083</b>	<b>14,227,630</b>	<b>16,313,043</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	-564,791	542,272
<b>Items not involving cash</b>				
Depreciation	606,391	586,202	586,202	586,202
Gain on derivative liability	(60,207)	(23,314)	-	-
Deferred income tax expense	210,499	(210,499)	-	-
Unrealized foreign exchange loss	134	(1,052)	-	-
Stock Based Compensation	660,266	696,248	-	-
	<b>1,489,627</b>	<b>-299,528</b>	<b>21,411</b>	<b>1,128,474</b>
Accounts Receivable	(2,694,324)	(772,418)	(370,014)	(1,554,059)
Prepaid Expenses	(15,498)	34,220	(14,250)	(17,100)
Accounts payable and accrued expenses	2,071,728	1,471,471	561,142	1,543,141
<b>Changes in working capital</b>	<b>(638,094)</b>	<b>733,273</b>	<b>176,878</b>	<b>(28,018)</b>
<b>Cash from (used in) operations</b>	<b>851,533</b>	<b>433,745</b>	<b>198,290</b>	<b>1,100,456</b>
<b>Financing activities</b>				
Proceeds from secured borrowings, net	200,000	-	(44,347)	-
Equity	-	(87,778)	(111,457)	-
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>(155,804)</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>

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**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%

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**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

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**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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