

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

BUY

Current Price: C\$0.25

Fair Value: C\$1.00

Risk*: 4

Outpacing Digital Ad Titans

Sector/Industry: Ad Tech

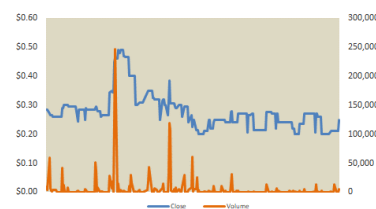
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Highlights

- **Q2 was in line with our expectations.** Revenue was up 12% YoY. In comparison, major digital ad platforms YouTube (NASDAQ: GOOGL) and Meta (NASDAQ: META) reported revenue growth of 4% YoY and 11% YoY, respectively.
- Gross margins improved by 5.7 ppt. **EBITDA and EPS improved YoY** as well, but remain negative.
- In Q2, **KIDZ had 350M paid impressions, up 36% QoQ**, and 230M video views, up 39% QoQ. We estimate that KIDZ generated \$0.008/ad view in revenue (flat YoY), which we believe is in line with what online ad platforms typically charge (\$0.003 to \$0.01). For comparison, YouTube, which is one of the most expensive ad platforms, generates \$0.10-\$0.30/ad view.
- eMarketer **estimates global digital ad spending will grow by 10.5%** this year, up from 8.6% in 2022. We note that KIDZ has historically outpaced global digital ad spending growth by 2.5x.
- **Healthy balance sheet**, with negligible debt.
- KIDZ's forward EV/R is 1.3x vs the sector average of 2.9x, **implying a 54% discount.**
- Due to seasonality, H1 typically accounts for only 25%-30% of annual revenue. Since KIDZ has historically outpaced sector growth, we believe it **should be able to maintain its growth momentum** in the upcoming quarters.

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	-29%	-12%
TSXV	3%	-12%

Company Data

52-Week Range	C\$0.20 - C\$0.55
Shares O/S	131M
Market Cap.	C\$33M
Current Yield	N/A
P/E (forward)	N/A
P/B	4.5x

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

Revenue	Q1-2022	Q1-2023	YoY	Q2-2022	Q2-2023	YoY
Western Europe	\$662,606	\$582,422	-12%	\$964,996	\$1,025,603	6%
Central, Eastern, Southern Europe	\$54,205	\$63,264	17%	\$79,256	\$67,518	-15%
North America	\$1,082,289	\$832,701	-23%	\$1,188,186	\$1,559,764	31%
Others	\$488,371	\$195,299	-60%	\$285,699	\$161,354	-44%
Total	\$2,287,471	\$1,673,686	-27%	\$2,518,137	\$2,814,239	12%

Q2 revenue and EPS were in line with our estimates

Margins	Q1-2022	Q1-2023	Q2-2022	Q2-2023	2022 (6M)	2023 (6M)	Sector (Advertising)
Gross	36.3%	40.0%	38.7%	44.0%	37.6%	42.5%	25.3%
EBITDA	-18.0%	-48.9%	-12.2%	-8.0%	-22.2%	-28.8%	6.3%
EBIT	-31.5%	-64.5%	-25.4%	-18.0%	-28.3%	-35.3%	4.5%
Net	-32.0%	-63.7%	-28.7%	-18.1%	-30.3%	-35.1%	2.6%

Revenue was up 12% YoY

Expenses / Sales	Q1-2022	Q1-2023	Q2-2022	Q2-2023	2022 (6M)	2023 (6M)
Selling & Marketing	7.9%	19.6%	10.0%	10.9%	9.0%	14.1%
Development	22.6%	44.5%	25.6%	26.8%	24.2%	33.4%
Stock Based Compensation	9.2%	10.1%	7.3%	4.8%	7.2%	5.5%
Compensation, Salaries & Consultation	12.2%	10.1%	5.9%	6.9%	8.9%	8.1%
G & A	9.4%	11.4%	7.5%	5.4%	8.5%	7.7%
Total	61.3%	95.6%	56.5%	54.9%	57.7%	68.8%

Gross margins increased 5.7 ppt, and remain higher than the sector average

Operating Summary	Q1-2022	Q1-2023	YoY	Q2-2022	Q2-2023	YoY	2022 (6M)	2023 (6M)	YoY
Revenue	\$2,287,471	\$1,673,685	-27%	\$2,513,613	\$2,814,239	12%	\$4,801,084	\$4,487,924	-7%
Gross Profit	\$830,895	\$669,969	-19%	\$971,965	\$1,239,580	28%	\$1,802,860	\$1,909,549	6%
Selling & Marketing	\$180,014	\$327,522	82%	\$251,788	\$306,561	22%	\$431,802	\$634,083	47%
G&A	\$1,223,061	\$1,273,075	4%	\$1,211,751	\$1,293,663	7%	\$2,434,812	\$2,566,738	5%
EBITDA	-\$412,182	-\$818,654	99%	-\$306,980	-\$224,297	-27%	-\$1,063,754	-\$1,291,272	21%
EBITDA (excl. development costs)	\$104,457	-\$74,321	-171%	\$337,074	\$531,100	58%	\$96,939	\$208,458	115%
Net Loss	-\$731,042	-\$1,066,612	46%	-\$721,677	-\$509,416	-29%	-\$1,452,719	-\$1,576,028	8%
EPS	-\$0.01	-\$0.01		-\$0.01	-\$0.01		-\$0.01	-\$0.01	

As a result, EBITDA and EPS improved

Summary of Cash Flows	2021 (6M)	2022 (6M)	2023 (6M)
Cash Flows from Operations	\$313,830	-\$321,547	-\$959,506
Cash Flows from Investing	-\$5,580	-\$10,592	-\$6,032
Cash Flows from Financing	\$19,331	-\$16,815	-\$17,252
Net Change	\$327,581	-\$348,954	-\$982,790
Free Cash Flows	\$308,250	-\$332,139	-\$965,538

Liquidity Analysis	2021	2022	Q1-2023	Q2-2023	Sector (Advertising)
Cash	\$2,078,607	\$2,363,530	\$2,304,757	\$1,380,740	
Working Capital	\$4,536,851	\$4,147,176	\$3,331,745	\$3,099,986	
Current Ratio	2.06	1.73	2.33	2.64	1.60
Debt / Capital	0.5%	0.5%	0.6%	0.6%	22.1%
LT Debt / Capital	0.5%	0.0%	0.0%	0.0%	13.1%
EBIT Interest Coverage Ratio	n/a	n/a	n/a	n/a	6.9

Healthy balance sheet, with negligible debt

C\$	# Options	Strike Price	Value
Total Outstanding	8,396,000	\$0.51	\$4,300,600
In-the-Money	-	-	-

	Warrants	Strike Price	Value
Total Outstanding	-	-	-
In-the-Money	-	-	-

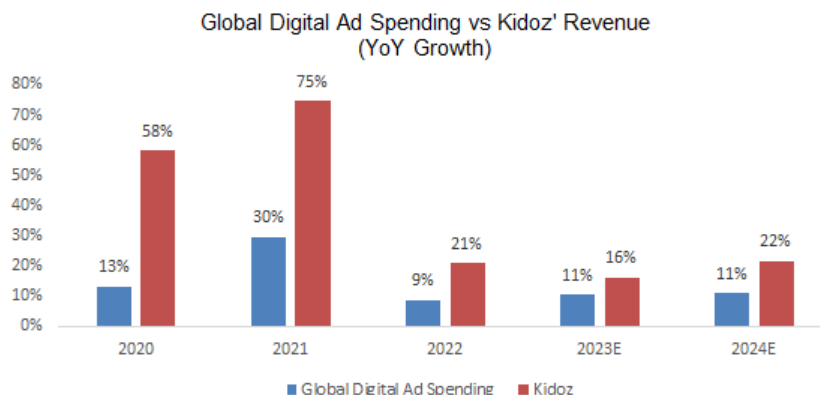
None of the outstanding options and warrants are in the money

Source: FRC/Company

Sector Outlook

Global digital ad spending is projected to grow 10.5% this year, up from 8.6% in 2022 (Source: eMarketer)

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



Source: FRC / Various

FRC Projections and Valuation

We are maintaining our projections and DCF valuation

	2023E (Unchanged)	2024E (Unchanged)
Revenue	\$17,552,080	\$21,375,000
EBITDA	-\$78,258	\$1,224,169
Net Income	-\$564,791	\$542,272
EPS	-\$0.004	\$0.00

DCF Valuation	2023E	2024E	2027E	Terminal
Funds Flow from Operations (US\$)	1,053,669	1,128,474	20,243,221	
Change in Working Capital (US\$)	104,126	(28,018)	(1,569,340)	
Cash from Operations (US\$)	1,157,796	1,100,456	18,673,881	
CAPEX (US\$)	(16,774)	(22,806)	(100,000)	
Free Cash Flow (US\$)	1,141,022	1,077,650	18,573,881	
Present Value (US\$)	1,050,720	882,101	10,677,899	115,770,904
Discount Rate	12.5%			
Terminal Growth	3%			
Present Value (US\$)	\$141,477,525			
Cash - Debt (US\$)	\$1,335,449			
Fair Value (US\$)	\$142,812,974			
Shares O/S	131,304,499			
Value per Share (C\$)	\$1.47			

Source: FRC

Digital AdTech Companies

Company	2022 Revenue Growth	2023 Revenue Growth Forecast	Forward EV/R
Viant Technology Inc.	-12%	13%	0.56
Kidoz Inc.	21%	16%	1.31
Omnicom Group Inc.	0%	3%	1.38
Criteo SA	11%	10%	1.47
The Interpublic Group of Companies	4%	1%	1.63
Pubmatic Inc.	13%	-1%	2.02
LiveRamp Holdings Inc.	13%	5%	2.57
Magnite Inc.	23%	6%	2.80
Integral Ad Science Holding Corp.	26%	13%	4.95
Alphabet Inc.	10%	8%	5.11
AppLovin Corp.	90%	9%	5.21
META Platforms Inc.	-1%	14%	5.44
The Trade Desk Inc.	32%	23%	18.18
Average (excl. outliers)	18%	9%	2.87

Source: S&P Capital IQ / FRC

We are maintaining our **BUY** rating, and adjusting our fair value estimate from **C\$1.02 to C\$1.00 per share** (the average of our DCF and comparables valuations). We believe KIDZ **should be able to maintain its growth momentum** in the upcoming quarters.

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**
- FOREX

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

KIDZ's forward EV/R of 1.3x (previously 1.4x) is significantly lower than the sector average of 2.9x (previously 3.0x)

Our comparables valuation declined from C\$0.57 to C\$0.53/share due to the lower sector EV/R

Maintaining our risk rating of 4 (Speculative)

Appendix

INCOME STATEMENT				
(in US\$) - YE Dec 31st	2021	2022	2023E	2024E
Total Revenue	12,484,639	15,097,056	17,552,080	21,375,000
Cost of Sales	7,152,307	9,973,211	10,882,290	13,038,750
Gross Profit	5,332,332	5,123,845	6,669,790	8,336,250
Expenses				
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
EBITDA	642,134	-792,042	-78,258	1,224,169
Amortization & Depreciation	606,391	586,202	586,202	586,202
EBIT	35,743	-1,378,244	-664,460	637,967
Interest & Bank Charges	241	185	-	-
Exchange Rate and Unusual Items	(9,628)	(119,543)	-	-
EBT	26,356	-1,497,602	-664,460	637,967
Income Taxes	216,677	-150,489	-99,669	95,695
Net Earnings for the period	-190,321	-1,347,113	-564,791	542,272
EPS	-0.00	-0.01	-0.00	0.00
BALANCE SHEET				
(in US\$)- YE Dec 31st	2021	2022	2023E	2024E
Assets				
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
Current Assets	8,811,939	9,835,060	10,239,003	12,887,812
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
Total Assets	13,925,531	14,387,083	14,227,630	16,313,043
Liabilities & Shareholders' Equity				
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	-	-
Current Liabilities	4,275,088	5,687,884	6,204,679	7,747,820
Lease	41,999	7,440	7,440	7,440
Shareholder's Equity				
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)
Total Liabilities & SE	13,925,531	14,387,083	14,227,630	16,313,043

STATEMENTS OF CASH FLOWS				
(in US\$)- YE Dec 31st	2021	2022	2023E	2024E
Operating Activities				
Net earnings for the period	(190,321)	-1,347,113	-564,791	542,272
Items not involving cash				
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	-	-
	1,489,627	-299,528	21,411	1,128,474
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
Changes in working capital	(638,094)	733,273	176,878	(28,018)
Cash from (used in) operations	851,533	433,745	198,290	1,100,456
Financing activities				
Proceeds from secured borrowings, net	200,000	-	(44,347)	-
Equity	-	(87,778)	(111,457)	-
Payment on operating lease liabilities	(29,851)	(34,511)	-	-
Cash provided by financing activities	1,413	(122,289)	(155,804)	-
Investing activities				
Acquisition of equipment/subsidiary	(8,152)	(22,806)	(22,806)	(22,806)
Security deposits	-	(3,727)	-	-
Cash used in investing activities	(384)	(26,533)	(22,806)	(22,806)

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.

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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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