

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

BUY
Current Price: C\$0.21
Fair Value: C\$0.82
Risk*: 4

Client Delays Impact Revenue; Sector Outlook Remains Strong

Sector/Industry: Ad Tech

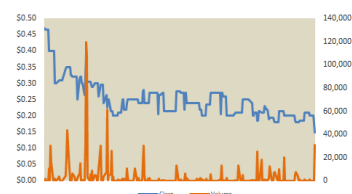
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Highlights

- In Q3, revenue dropped 20% YoY, falling 18% below our estimate due to clients delaying ad campaigns. We were **disappointed with the revenue decline**, especially considering the upward trend in global digital ad spending. Major digital ad platforms, YouTube (NASDAQ: GOOGL), and Meta (NASDAQ: META), reported revenue growth of 12% YoY and 24% YoY, respectively.
- Another contributing factor to the decline in revenue is KIDZ's **shift in sales strategy within the U.S.** Instead of relying exclusively on resellers, the company expanded its sales team to prioritize direct sales; a strategy management believes will be more successful in boosting revenue, and margins.
- KIDZ's ad network spans 5,000+ apps, reaching 400M kids. Prominent brands such as McDonald's (NYSE: MCD), Disney (NYSE: DIS), Lego, Kellogg's (NYSE: K), and Nintendo (TYO: 7974), advertise on KIDZ's platform. Management has indicated that their **newly launched ad platform**, Prado, designed for teens and parents, **is gaining significant momentum.**
- In Q3, gross margins improved by 2 ppt YoY, aligning with our forecast. However, **EBITDA, and EPS, deteriorated due to lower revenue.**
- We **anticipate a faster growth trajectory** in global ad spending for 2024, driven by cooling inflation, and lower interest rates. We anticipate central banks will initiate rates cuts in H1-2024.
- KIDZ's forward EV/R is 1.3x vs the sector average of 3.0x, **implying a 57% discount.**
- As Q4 usually comprises 50% of annual revenue, its results will indicate the success of KIDZ's new direct sales strategy.

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

KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	-38%	-49%
TSXV	-6%	-9%

Company Data

52-Week Range	C\$0.14 - C\$0.44
Shares O/S	131M
Market Cap.	C\$27M
Current Yield	N/A
P/E (forward)	N/A
P/B	4.0x

Key Financial Data (FYE - Dec 31)
(US\$)

	2022	2023E	2024E
Cash	2,363,530	1,447,506	2,067,635
Working Capital	4,147,176	3,110,862	3,817,572
Total Assets	14,387,083	12,181,884	13,587,767
LT Debt to Capital	0.0%	0.0%	0.0%
Revenue	15,097,056	14,417,780	18,600,000
Net Income	(1,347,113)	(1,488,253)	143,314
EPS	-0.01	-0.01	0.00

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

Financials

Q3 revenue was down 20% YoY, missing our forecast by 18%

Gross margins increased by 2 pp YoY, in line with our forecast

Despite a 20% YoY increase in operating expenses, they stayed in line with our forecasts

As a result of lower revenue, EBITDA, EPS, and FCF deteriorated, and fell well below our estimates

Healthy balance sheet, with negligible debt

None of the outstanding options are in the money

Revenue	Q1-2022	Q1-2023	YoY	Q2-2022	Q2-2023	YoY	Q3-2022	Q3-2023	YoY
Western Europe	\$662,606	\$582,422	-12%	\$964,996	\$1,025,603	6%	\$1,218,264	\$992,740	-19%
Central, Eastern, Southern Europe	\$54,205	\$63,264	17%	\$79,256	\$67,518	-15%	\$71,940	\$76,577	6%
North America	\$1,082,289	\$832,701	-23%	\$1,188,186	\$1,559,764	31%	\$1,935,278	\$1,617,720	-16%
Others	\$488,371	\$195,299	-60%	\$285,699	\$161,354	-44%	\$288,667	\$121,317	-58%
Total	\$2,287,471	\$1,673,686	-27%	\$2,518,137	\$2,814,239	12%	\$3,514,149	\$2,808,354	-20%

Margins	Q3-2021	Q3-2022	Q3-2023	2021-9M	2022-9M	2023-9M	Sector (Advertising)
Gross	43.58%	35.68%	37.52%	44.82%	36.76%	40.61%	25.1%
EBITDA	11.43%	2.78%	-11.40%	4.60%	-6.32%	-17.14%	6.7%
EBIT	-2.53%	-6.81%	-22.51%	-14.60%	-19.20%	-30.41%	4.7%
Net	-2.67%	-8.93%	-27.22%	-14.77%	-21.24%	-32.08%	2.6%

Expenses / Sales	Q3-2021	Q3-2022	Q3-2023	2021-9M	2022-9M	2023-9M
Selling & Marketing	5.5%	6.3%	11.1%	7.1%	7.9%	13.0%
Development	17.0%	17.4%	25.6%	18.0%	21.3%	30.4%
Stock Based Compensation	6.4%	5.2%	4.8%	6.8%	6.3%	5.3%
Salaries	4.5%	4.0%	6.0%	7.8%	6.9%	7.3%
G & A	5.2%	5.1%	6.1%	7.2%	7.0%	7.1%
Total	38.5%	38.1%	53.8%	47.1%	49.4%	63.0%

Operating Summary	Q3-2021	Q3-2022	Q3-2023	YoY	2021-9M	2022-9M	2023-9M	YoY
Revenue	\$2,814,642	\$3,514,149	\$2,808,354	-20%	\$6,550,089	\$8,315,233	\$7,296,278	-12%
Gross Profit	\$1,226,534	\$1,253,907	\$1,053,814	-16%	\$2,935,908	\$3,056,767	\$2,963,363	-3%
Selling & Marketing	\$156,122	\$222,379	\$312,791	41%	\$465,954	\$654,181	\$946,874	45%
G&A	\$992,882	\$1,124,972	\$1,226,671	9%	\$2,968,318	\$3,559,784	\$3,793,409	7%
EBITDA	\$321,685	\$97,621	-\$320,214	-428%	\$301,254	-\$525,783	-\$1,250,428	138%
EBITDA (excl. development costs)	\$799,244	\$710,817	\$399,861	-44%	\$1,482,152	\$1,248,106	\$969,377	-22%
Net Loss	-\$75,040	-\$313,774	-\$764,337	144%	-\$967,161	-\$1,766,493	-\$2,340,365	32%
EPS	-\$0.00	-\$0.00	-\$0.01		-\$0.01	-\$0.01	-\$0.02	

Summary of Cash Flows	2021 (9M)	2022 (9M)	2023 (9M)
Cash Flows from Operations	-\$45,247	-\$207,798	-\$860,629
Cash Flows from Investing	-\$78	-\$12,991	-\$8,714
Cash Flows from Financing	\$9,288	-\$27,556	-\$25,232
Net Change	-\$36,037	-\$248,345	-\$894,575
Free Cash Flows	-\$45,325	-\$220,789	-\$869,343

Liquidity Analysis	2021	2022	Q1-2023	Q2-2023	Q3-2023	Sector (Advertising)
Cash	\$2,078,607	\$2,363,530	\$2,304,757	\$1,380,740	\$1,468,955	
Working Capital	\$4,536,851	\$4,147,176	\$3,331,745	\$3,099,986	\$2,615,611	
Current Ratio	2.06	1.73	2.33	2.64	2.23	1.70
Debt / Capital	0.5%	0.5%	0.6%	0.6%	0.7%	23.3%
LT Debt / Capital	0.5%	0.0%	0.0%	0.0%	0.0%	14.9%

C\$	# Options	Strike Price	Value
Total Outstanding	8,066,000	\$0.51	\$4,122,600
In-the-Money	-	-	-

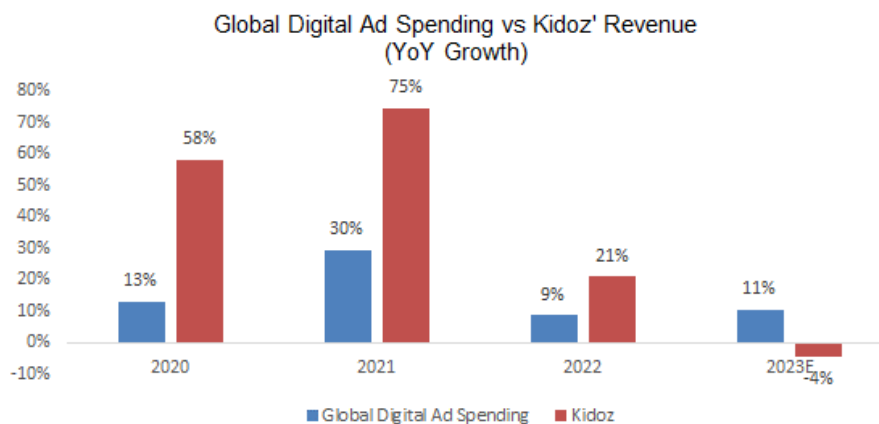
	Warrants	Strike Price	Value
Total Outstanding	-	-	-
In-the-Money	-	-	-

Source: FRC/Company

Sector Outlook

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

In 2023, KIDZ's revenue growth lagged behind global digital ad spending, after outperforming global growth by an average of 3.3x over the past three years



Source: FRC / Various

FRC Projections and Valuation

As Q3 was weaker than expected, we are lowering our near-term forecasts

FRC Forecasts	2023E (Old)	2023E (New)	2024E (Old)	2024E (New)
Revenue	\$17,552,080	\$14,417,780	\$21,375,000	\$18,600,000
EBITDA	-\$78,258	-\$1,164,684	\$1,224,169	\$754,806
Net Profit (Loss)	-\$564,791	-\$1,488,253	\$542,272	\$143,314
EPS	-\$0.00	-\$0.01	\$0.00	\$0.00

As a result, our DCF valuation declined from C\$1.47 to C\$1.15/share

DCF Valuation	2023E	2024E	2027E	Terminal
Funds Flow from Operations (US\$)	529,483	729,516	15,328,257	
Change in Working Capital (US\$)	(406,268)	(86,581)	(1,441,959)	
Cash from Operations (US\$)	123,215	642,935	13,886,298	
CAPEX (US\$)	(14,092)	(22,806)	(100,000)	
Free Cash Flow (US\$)	109,123	620,129	13,786,298	
Present Value (US\$)	108,588	548,527	8,564,583	92,858,111
Discount Rate	12.5%			
Terminal Growth	3.0%			
Present Value (US\$)	\$110,776,064			
Cash - Debt (US\$)	\$1,424,773			
Fair Value (US\$)	\$112,200,837			
Shares O/S	131,304,499			
Value per Share (C\$)	\$1.15			

Source: FRC

Digital AdTech Companies

Company	2022 Revenue Growth	2023 Revenue Growth Forecast	Forward EV/R
Viant Technology Inc.	-12%	14%	0.54
Kidoz Inc.	21%	-4%	1.28
Omnicom Group Inc.	0%	2%	1.39
Criteo SA	-11%	9%	1.31
The Interpublic Group of Companies	4%	-1%	1.58
PubMatic Inc.	13%	2%	2.75
LiveRamp Holdings Inc.	13%	7%	2.65
Magnite Inc.	23%	6%	2.78
Integral Ad Science Holding Corp.	26%	15%	5.13
Alphabet Inc.	10%	8%	5.26
AppLovin Corp.	1%	16%	4.90
META Platforms Inc.	-1%	14%	6.22
The Trade Desk Inc.	32%	22%	17.28
Average (excl. outliers)	9%	8%	2.98

Source: S&P Capital IQ / FRC

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

Our comparables valuation decreased from C\$0.53 to C\$0.48/share, driven by our lower revenue forecast

We are **maintaining our BUY rating**, and adjusting our fair value estimate from C\$1.00 to C\$0.82/ share (the average of our DCF and comparables valuations). While Q3 fell short of expectations, we remain positive on the stock, given management's conviction in their new sales strategy, Prado's initial success, and a robust sector outlook.

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

Maintaining our risk rating of 4 (Speculative)

Appendix

INCOME STATEMENT			
(in US\$) - YE Dec 31st	2022	2023E	2024E
Total Revenue	15,097,056	14,417,780	18,600,000
Cost of Sales	9,973,211	8,939,024	11,160,000
Gross Profit	5,123,845	5,478,756	7,440,000
Expenses			
Selling & Marketing	1,039,713	1,408,345	1,116,000
Development	2,496,877	3,126,199	3,204,354
Stock Awareness Program	161,332	227,668	273,202
Stock Based Compensation	696,248	503,883	529,077
Compensation	760,781	707,204	724,885
G & A	760,936	670,142	837,677
EBITDA	-792,042	-1,164,684	754,806
Amortization & Depreciation	586,202	586,202	586,202
EBIT	-1,378,244	-1,750,886	168,604
Interest & Bank Charges	185	-	-
Exchange Rate and Unusual Items	(119,543)	-	-
EBT	-1,497,602	-1,750,886	168,604
Income Taxes	-150,489	-262,633	25,291
Net Earnings for the period	-1,347,113	-1,488,253	143,314
EPS	-0.01	-0.01	0.00

BALANCE SHEET			
(in US\$)- YE Dec 31st	2022	2023E	2024E
Assets			
Cash	2,363,530	1,447,506	2,067,635
Accounts receivable	7,400,282	6,660,254	7,992,305
Prepaid expenses	71,248	85,498	102,597
Current Assets	9,835,060	8,193,257	10,162,536
Property and equipment	33,522	33,522	33,522
Goodwill, intangible assets, and other	4,518,501	3,955,105	3,391,709
Total Assets	14,387,083	12,181,884	13,587,767
Liabilities & Shareholders' Equity			
Accounts payables & accrued liabilities	5,611,421	5,050,279	6,312,849
Derivative	51	-	-
Lease	32,116	32,116	32,116
Loans payable/ borrowings	44,296	-	-
Current Liabilities	5,687,884	5,082,395	6,344,965
Lease	7,440	7,440	7,440
Shareholder's Equity			
Share Capital	50,653,094	50,541,637	50,541,637
Foreign Currency Translation	24,580	24,580	24,580
Deficit	(41,985,915)	(43,474,168)	(43,330,854)
Total Liabilities & SE	14,387,083	12,181,884	13,587,767

STATEMENTS OF CASH FLOWS			
(in US\$)- YE Dec 31st	2022	2023E	2024E
Operating Activities			
Net earnings for the period	-1,347,113	-1,488,253	143,314
Items not involving cash			
Depreciation	586,202	586,202	586,202
Gain on derivative liability	(23,314)	-	-
Deferred income tax expense	(210,499)	-	-
Unrealized foreign exchange loss	(1,052)	-	-
Stock Based Compensation	696,248	-	-
	-299,528	-902,051	729,516
Accounts Receivable	(772,418)	740,028	(1,332,051)
Prepaid Expenses	34,220	(14,250)	(17,100)
Accounts payable and accrued expenses	1,471,471	(561,142)	1,262,570
Changes in working capital	733,273	164,637	(86,581)
Cash from (used in) operations	433,745	-737,414	642,935
Financing activities			
Proceeds from secured borrowings, net	-	(44,347)	-
Equity	(87,778)	(111,457)	-
Payment on operating lease liabilities	(34,511)	-	-
Cash provided by financing activities	(122,289)	(155,804)	-
Investing activities			
Acquisition of equipment/subsidiary	(22,806)	(22,806)	(22,806)
Security deposits	(3,727)	-	-
Cash used in investing activities	(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.

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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