

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

BUY

Current Price: C\$0.23

Fair Value: C\$0.74

Risk*: 4

YouTube & Meta's Q1 Ad Surge Signals Bright Prospects for 2024

Sector/Industry: Ad Tech

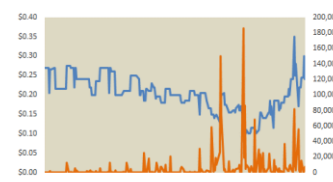
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Highlights

- In 2023, **revenue dropped 12% YoY**, falling 8% below our estimate due to clients delaying or not renewing ad campaigns.
- However, **gross margins were very close** to our estimate, and G&A expenses were 4% lower than our estimate.
- EPS declined YoY**, from -\$0.01 to -\$0.02, falling short of our estimate of -\$0.01.
- The downturn in revenue was partially attributable to a **shift in sales strategy within the U.S.** KIDZ pivoted away from relying solely on resellers to prioritizing direct sales, a strategy management believes will boost revenue and margins. In their latest news release, management indicated that **"2024 will be a strong year of growth"**.
- 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 momentum.
- We expect a **strong year ahead for global digital ad spending**. In Q1-2024, major digital ad platforms, YouTube (NASDAQ: GOOGL), and Meta (NASDAQ: META), saw their ad revenue rise by 20% and 27% YoY, respectively. Per eMarketer, global digital ad spending will grow by 13.2% this year, up from 10.7% in 2023, and 9.1% in 2022. From 2020 to 2023, KIDZ's revenue growth outpaced global digital ad spending growth by 2.1x on average.
- KIDZ's forward EV/R is 1.2x vs the sector average of 3.0x, **implying a 60% discount**.

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

KIDZ Price and Volume (1-year)



	YTD	12M
KIDZ	12%	12%
TSXV	5%	-4%

Company Data

52-Week Range	C\$0.10 - C\$0.36
Shares O/S	131M
Market Cap.	C\$30M
Current Yield	N/A
P/E (forward)	N/A
P/B	4.2x

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

	2023	2024E	2025E
Cash	1,469,224	744,407	1,254,159
Working Capital	3,220,646	2,847,634	3,779,553
Total Assets	11,807,080	11,776,902	13,295,782
LT Debt to Capital	0.0%	0.0%	0.0%
Revenue	13,326,824	16,875,000	20,812,500
Net Income	(2,012,056)	(951,212)	413,638
EPS	-0.02	-0.01	0.00

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

Financials

2023 revenue was down 12% YoY, missing our forecast by 8%

Gross margins increased by 3 pp YoY to 37% vs our estimate of 38%

G&A and other expenses were up 8% YoY, primarily due to the expansion of R&D and sales teams, but came in 4% lower than our estimate

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

EPS declined YoY, from -\$0.01 to -\$0.02, falling short of our estimate of -\$0.01

Revenue	2021	2022	2023	YoY
Western Europe	\$4,012,075	\$5,751,955	\$5,236,797	-9%
Central, Eastern, Southern Europe	\$194,602	\$298,243	\$489,014	64%
North America	\$7,758,935	\$7,495,415	\$7,001,507	-7%
Others	\$519,027	\$1,551,443	\$599,506	-61%
Total	\$12,484,639	\$15,097,056	\$13,326,824	-12%

Margins	2021	2022	2023	Sector (Advertising)
Gross	42.71%	33.94%	37.02%	25.0%
EBITDA	5.14%	-5.25%	-11.00%	6.5%
EBIT	0.29%	-9.13%	-15.42%	4.3%
Net	-1.52%	-8.92%	-15.10%	0.3%

Expenses / Sales	2021	2022	2023
Selling & Marketing	5.1%	6.9%	9.5%
Development	13.4%	16.5%	22.5%
Stock Based Compensation	5.3%	4.6%	3.9%
Salaries	5.6%	5.0%	5.4%
G & A	4.8%	5.0%	5.7%
Total	34.3%	38.1%	46.9%

Operating Summary	2021	2022	2023	YoY
Revenue	\$12,484,639	\$15,097,056	\$13,326,824	-12%
Gross Profit	\$5,332,332	\$5,123,845	\$4,934,057	-4%
Selling & Marketing	\$641,393	\$1,039,713	\$1,268,218	22%
G&A	\$4,048,805	\$4,876,174	\$5,132,436	5%
EBITDA	\$642,134	-\$792,042	-\$1,466,597	85%
EBITDA (excl. development costs)	\$2,320,982	\$1,704,835	\$1,532,482	-10%
Net Loss	-\$190,321	-\$1,347,113	-\$2,012,056	49%
EPS	-\$0.00	-\$0.01	-\$0.02	

Summary of Cash Flows	2021	2022	2023
Cash Flows from Operations	851,533	433,745	(823,640)
Cash Flows from Investing	(384)	(26,533)	(8,714)
Cash Flows from Financing	1,413	(122,289)	(61,952)
Net Change	852,562	284,923	(894,306)
Free Cash Flows	851,149	407,212	(832,354)

Source: FRC/Company

Healthy balance sheet, with no debt

No outstanding options are in the money

Liquidity Analysis	2021	2022	2023	Sector (Advertising)
Cash	\$2,078,607	\$2,363,530	\$1,469,224	
Working Capital	\$4,536,851	\$4,147,176	\$3,220,646	
Current Ratio	2.06	1.73	1.70	1.60
Debt / Capital	0.5%	0.5%	0.0%	23.2%
LT Debt / Capital	0.5%	0.0%	0.0%	14.2%
EBIT Interest Coverage Ratio	n/a	n/a	n/a	6.2

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

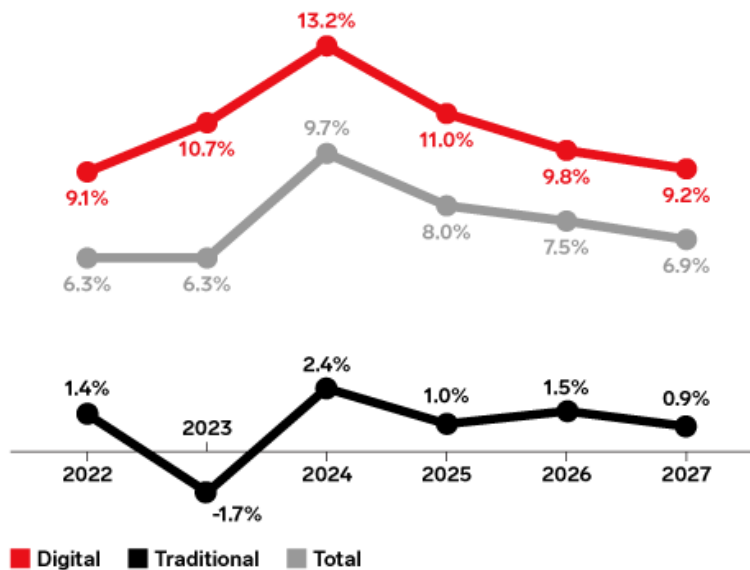
	Warrants	Strike Price	Value
Total Outstanding	-	-	-
In-the-Money	-	-	-

Source: FRC/Company

Sector Outlook

Ad Spending Growth for Digital, Traditional, and Total Worldwide, 2022-2027

% change



Source: eMarketer

It is estimated that global digital ad spending will grow by 13.2% this year, up from 10.7% in 2023, and 9.1% in 2022

It is estimated that **global digital advertising to children** will grow from \$6.1B in 2022, to \$42.2B by 2030, reflecting a CAGR of 24% (Source: Global Information Inc.). Growth will be fueled by escalating screen time for kids, and technological advancements in targeting advertisements based on demographics and interests.

From 2020 to 2023, KIDZ's revenue growth outpaced global digital ad spending growth by 2.1x on average

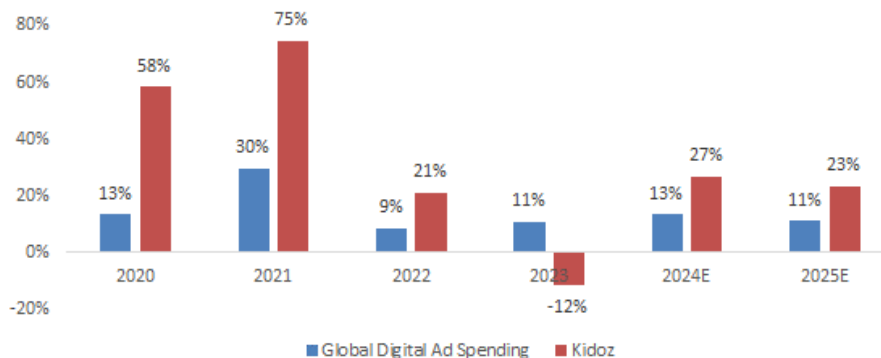
In 2024 and 2025, we anticipate KIDZ's revenue will grow by 27% and 23% respectively, outpacing global digital ad spending growth forecasts by 2.1x

As 2023 revenue was weaker than expected, we are lowering our 2024 revenue and EPS forecasts

We anticipate a turnaround to profitability in 2025

As a result, our DCF valuation declined from C\$1.15 to C\$0.94/share

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



Source: FRC / Various

FRC Projections and Valuation

FRC Forecasts	2024E (Old)	2024E (New)	2025E (Introducing)
Revenue	\$18,600,000	\$16,875,000	\$20,812,500
EBITDA	\$754,806	-\$515,873	\$1,104,914
Net Profit (Loss)	\$143,314	-\$951,212	\$413,638
EPS	\$0.00	-\$0.01	\$0.00

DCF Valuation	2024E	2025E	2026E	2030E	Terminal
Funds Flow from Operations (US\$)	(348,012)	1,031,919	3,364,434	11,429,159	
Change in Working Capital (US\$)	(351,805)	(422,166)	(506,600)	(1,050,485)	
Cash from Operations (US\$)	(699,817)	609,752	2,857,834	10,378,674	
CAPEX (US\$)	(25,000)	(100,000)	(100,000)	(100,000)	
Free Cash Flow (US\$)	(724,817)	509,752	2,757,834	10,278,674	
Present Value (US\$)	(675,363)	422,197	2,030,353	4,724,223	72,929,227
Discount Rate	12.5%				
Terminal Growth	3.0%				
Present Value (US\$)	\$90,275,666				
Cash - Debt (US\$)	\$1,469,224				
Fair Value (US\$)	\$91,744,890				
Shares O/S	131,304,499				
Value per Share (C\$)	\$0.94				

Source: FRC

Digital AdTech Companies

Company	2023 Revenue Growth	2024 Revenue Growth Forecast	EV/R (forward)
Viant Technology Inc.	13%	15%	0.57
Kidoz Inc.	-12%	27%	1.24
Omnicom Group Inc.	3%	4%	1.52
The Interpublic Group of Companies	-1%	1%	1.54
Criteo SA	-3%	5%	1.71
LiveRamp Holdings Inc.	8%	9%	2.51
Magnite Inc.	7%	10%	2.51
Integral Ad Science Holding Corp.	16%	12%	2.95
PubMatic Inc.	4%	11%	3.35
Alphabet Inc.	9%	12%	5.46
AppLovin Corp.	17%	25%	6.27
META Platforms Inc.	16%	18%	6.91
The Trade Desk Inc.	23%	23%	16.59
Average (excl. outliers)	8%	13%	3.04

Source: S&P Capital IQ / FRC

We are **maintaining our BUY rating**, and adjusting our fair value estimate from C\$0.82 to C\$0.74/ share (the average of our DCF and comparables valuations). While 2023 revenue fell short of expectations, **we remain positive on the stock**, given our robust outlook on the sector, management’s conviction in their new sales strategy, and Prado’s initial success.

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

Our 2024 revenue growth forecast of 27% is 2x the sector average

KIDZ’s forward EV/R of 1.2x (previously 1.3x) is significantly lower than the sector average of 3.0x (unchanged)

Using our 2024 revenue estimate (previously 2023), our comparables valuation increased from C\$0.48 to C\$0.54/share

Maintaining our risk rating of 4 (Speculative)

Appendix

INCOME STATEMENT				
(in US\$) - YE Dec 31st	2022	2023	2024E	2025E
Total Revenue	15,097,056	13,326,824	16,875,000	20,812,500
Cost of Sales	9,973,211	8,392,767	10,631,250	12,487,500
Gross Profit	5,123,845	4,934,057	6,243,750	8,325,000
Expenses				
Selling & Marketing	1,039,713	1,268,218	1,350,000	1,456,875
Development	2,496,877	2,999,079	3,074,056	3,150,907
Stock Awareness Program	161,332	146,300	175,560	263,340
Stock Based Compensation	696,248	515,116	540,872	567,915
Compensation	760,781	713,335	784,669	863,135
G & A	760,936	758,606	834,467	917,913
EBITDA	-792,042	-1,466,597	-515,873	1,104,914
Amortization & Depreciation	586,202	588,488	603,200	618,280
EBIT	-1,378,244	-2,055,085	-1,119,073	486,633
Interest & Bank Charges	185	1,049	-	-
Exchange Rate and Unusual Items	(119,543)	16,002	-	-
EBT	-1,497,602	-2,038,034	-1,119,073	486,633
Income Taxes	-150,489	-25,978	-167,861	72,995
Net Earnings for the period	-1,347,113	-2,012,056	-951,212	413,638
EPS	-0.01	-0.02	-0.01	0.00
BALANCE SHEET				
(in US\$)- YE Dec 31st	2022	2023	2024E	2025E
Assets				
Cash	2,363,530	1,469,224	744,407	1,254,159
Accounts receivable	7,400,282	6,261,305	7,513,566	9,016,279
Prepaid expenses	71,248	102,895	123,474	148,169
Current Assets	9,835,060	7,833,424	8,381,447	10,418,607
Property and equipment	33,522	29,234	29,234	29,234
Goodwill, intangible assets, and other	4,518,501	3,944,422	3,366,222	2,847,942
Total Assets	14,387,083	11,807,080	11,776,902	13,295,782
Liabilities & Shareholders' Equity				
Accounts payables & accrued liabilities	5,611,421	4,605,173	5,526,208	6,631,449
Derivative	51	-	-	-
Lease	32,116	7,605	7,605	7,605
Loans payable/ borrowings	44,296	-	-	-
Current Liabilities	5,687,884	4,612,778	5,533,813	6,639,054
Lease	7,440	-	-	-
Shareholder's Equity				
Share Capital	50,653,094	51,167,693	51,167,693	51,167,693
Foreign Currency Translation	24,580	24,580	24,580	24,580
Deficit	(41,985,915)	(43,997,971)	(44,949,183)	(44,535,545)
Total Liabilities & SE	14,387,083	11,807,080	11,776,902	13,295,782

STATEMENTS OF CASH FLOWS				
(in US\$)- YE Dec 31st	2022	2023	2024E	2025E
Operating Activities				
Net earnings for the period	-1,347,113	-2,012,056	-951,212	413,638
Items not involving cash				
Depreciation	586,202	588,488	603,200	618,280
Gain on derivative liability	(23,314)	(51)	-	-
Deferred income tax expense	(210,499)	70,140	-	-
Unrealized foreign exchange loss	(1,052)	(1,407)	-	-
Stock Based Compensation	696,248	515,116	-	-
	-299,528	-839,770	-348,012	1,031,919
Accounts Receivable	(772,418)	1,054,025	(1,252,261)	(1,502,713)
Prepaid Expenses	34,220	(31,647)	(20,579)	(24,695)
Accounts payable and accrued expenses	1,471,471	(1,006,248)	921,035	1,105,242
Changes in working capital	733,273	16,130	(351,805)	(422,166)
Cash from (used in) operations	433,745	-823,640	-699,817	609,752
Financing activities				
Proceeds from secured borrowings, net	-	(29,484)	-	-
Equity	(87,778)	(517)	-	-
Payment on operating lease liabilities	(34,511)	(31,951)	-	-
Cash provided by financing activities	(122,289)	(61,952)	-	-
Investing activities				
Acquisition of equipment/subsidiary	(22,806)	(8,714)	(25,000)	(100,000)
Security deposits	(3,727)	-	-	-
Cash used in investing activities	(26,533)	(8,714)	(25,000)	(100,000)

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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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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