

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

**BUY**  
**Current Price: C\$0.125**  
**Fair Value: C\$0.65**  
**Risk\*: 4**

**Market Overreaction to Q2 Presents Attractive Entry Points**

**Sector/Industry: Ad Tech**

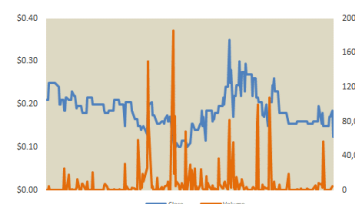
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**Highlights**

- **Q2 revenue fell 12% YoY**, missing our estimate by 10% due to lower-than-expected ad spending. Despite lower revenue, **EPS improved YoY**, driven by higher gross margins and lower G&A expenses.
- In Q2, major digital ad platforms experienced slower YoY spending growth relative to the previous quarter. For instance, **YouTube** (NASDAQ: GOOGL) and **Meta** (NASDAQ: META) saw their ad revenue growth decelerate to 13% and 22% YoY, respectively, down from 20% and 27% in Q1.
- That said, **ad spending is expected to rise in Q4**, amid cooling inflation and proposed rate cuts by central banks. eMarketer forecasts global digital ad spending will grow by 12.2% this year (revised from 13.2%), up from 12.0% in 2023.
- Management is forecasting **record Q4 revenue this year**. Note that H1 usually comprises only 30%-35% of annual revenue.
- We believe KIDZ is poised to benefit from the stricter ad regulations imposed by the recently introduced U.S. COPPA 2.0 regulations. By expanding privacy protections to teens and imposing tighter controls on data handling and targeted ads, we believe **COPPA 2.0 creates a more complex landscape for advertisers**. As a result, advertisers will likely turn to companies like Kidz that specialize in kid-friendly advertising.
- KIDZ maintains a healthy balance sheet, with no debt.
- Q2 results, weighed down by lower revenue, triggered a sharp 50% decline in the share price today. We believe **the market overreacted**, overlooking the improvements in gross margins and EPS, and the projected robust global ad spending growth in H2 2024.
- KIDZ's forward EV/R is 0.9x vs the sector average of 3.3x, **a 74% discount**.

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

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



	YTD	12M
KIDZ	-40%	-50%
TSXV	4%	-2%

**Company Data**

52-Week Range	C\$0.10 - C\$0.36
Shares O/S	131M
Market Cap.	C\$16M
Current Yield	N/A
P/E (forward)	N/A
P/B	2.6x

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

	2023	2024E	2025E
Cash	1,469,224	1,465,868	2,035,968
Working Capital	3,220,646	3,393,193	4,156,786
Total Assets	11,807,080	12,128,202	13,076,125
LT Debt to Capital	0.0%	0.0%	0.0%
Revenue	13,326,824	13,500,000	15,750,000
Net Income	(2,012,056)	(139,395)	441,353
EPS	-0.02	-0.00	0.00

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

## Financials

Q2 revenue was down 12% YoY, missing our forecast by 10%

However, gross margins increased 6 pp YoY to 50%, driven by higher direct vs reseller sales, aligning with our estimate

G&A expenses were down 1% YoY, and in line with our estimate

As a result of higher gross margins, and lower G&A expenses, EPS improved, despite remaining negative

Healthy balance sheet, with no debt

Revenue	Q1-2023	Q1-2024	YoY	Q2-2023	Q2-2024	YoY	H1-2023	H1-2024	YoY
Western Europe	\$582,422	\$631,946	9%	\$1,025,603	\$1,251,397	22%	\$1,608,025	\$1,883,343	17%
Europe	\$63,264	\$90,397	43%	\$67,518	\$119,663	77%	\$130,782	\$210,060	61%
North America	\$832,701	\$984,806	18%	\$1,559,764	\$1,047,319	-33%	\$2,392,465	\$2,032,125	-15%
Others	\$195,299	\$85,922	-56%	\$161,354	\$60,796	-62%	\$356,653	\$146,718	-59%
<b>Total</b>	<b>\$1,673,686</b>	<b>\$1,793,071</b>	<b>7%</b>	<b>\$2,814,239</b>	<b>\$2,479,175</b>	<b>-12%</b>	<b>\$4,487,925</b>	<b>\$4,272,246</b>	<b>-5%</b>

Margins	Q1-2023	Q1-2024	Q2-2023	Q2-2024	2023 (6M)	2024 (6M)	Sector (Advertising)
Gross	40.0%	53.3%	44.0%	50.2%	42.5%	51.5%	28.0%
EBITDA	-48.9%	-28.5%	-8.0%	-9.4%	-23.2%	-17.4%	7.4%
EBIT	-57.8%	-34.9%	-13.2%	-11.2%	-29.8%	-21.1%	4.9%
Net	-63.7%	-40.1%	-18.1%	-15.6%	-35.1%	-25.9%	-0.01%

Expenses / Sales	Q1-2023	Q1-2024	Q2-2023	Q2-2024	2023 (6M)	2024 (6M)
Selling & Marketing	19.6%	18.3%	10.9%	12.4%	14.1%	14.8%
Development	44.5%	49.6%	26.8%	33.0%	33.4%	40.0%
Stock Based Compensation	10.1%	3.8%	4.8%	4.2%	5.5%	4.0%
Salaries	10.1%	3.0%	6.9%	7.7%	8.1%	5.7%
G & A	11.4%	11.0%	5.4%	6.5%	7.7%	8.4%
<b>Total</b>	<b>95.6%</b>	<b>85.6%</b>	<b>54.9%</b>	<b>63.8%</b>	<b>68.8%</b>	<b>73.0%</b>

Operating Summary	Q1-2023	Q1-2024	YoY	Q2-2023	Q2-2024	YoY	2023 (6M)	2024 (6M)	YoY
Revenue	\$1,673,685	\$1,793,071	7%	\$2,814,239	\$2,479,115	-12%	\$4,487,924	\$4,272,186	-12%
Gross Profit	\$669,969	\$956,397	43%	\$1,239,580	\$1,245,121	0%	\$1,909,549	\$2,201,518	-3%
Selling & Marketing	\$327,522	\$327,522	0%	\$306,561	\$306,747	0%	\$634,083	\$634,269	45%
G&A	\$1,273,075	\$1,207,599	-5%	\$1,293,663	\$1,274,915	-1%	\$2,566,738	\$2,482,514	7%
EBITDA (excl. SBC)	-\$818,654	-\$510,475	-38%	-\$224,297	-\$232,220	4%	-\$1,042,951	-\$742,695	138%
EBITDA (excl. development costs)	-\$74,321	\$378,965	-610%	\$531,100	\$585,736	10%	\$456,779	\$964,701	-22%
Net Loss	-\$1,066,612	-\$719,583	-33%	-\$509,416	-\$386,629	-24%	-\$1,576,028	-\$1,105,233	32%
EPS	-\$0.01	-\$0.01		-\$0.00	-\$0.00		-\$0.01	-\$0.01	

Summary of Cash Flows	Q1-2022	Q1-2023	Q1-2024	2022 (6M)	2023 (6M)	2024 (6M)
Cash Flows from Operations	15,881	(46,996)	(599,096)	(321,547)	(959,506)	(742,642)
Cash Flows from Investing	(6,979)	(1,496)	12,457	(10,592)	(6,032)	10,852
Cash Flows from Financing	(7,039)	(10,281)	(7,604)	(16,815)	(17,252)	(7,605)
Net Change	1,863	(58,773)	(594,243)	(348,954)	(982,790)	(739,395)
<b>Free Cash Flows</b>	<b>8,902</b>	<b>(48,492)</b>	<b>(586,639)</b>	<b>(332,139)</b>	<b>(965,538)</b>	<b>(731,790)</b>

Liquidity Analysis	2022	2023	Q1-2024	Q2-2024	Sector (Advertising)
Cash	\$2,363,530	\$1,469,224	\$874,981	\$729,829	
Working Capital	\$4,147,176	\$3,220,646	\$2,698,684	\$2,461,257	
Current Ratio	1.73	1.70	2.20	2.39	1.60
Debt / Capital	0.5%	0.0%	0.0%	0.0%	23.8%
LT Debt / Capital	0.0%	0.0%	0.0%	0.0%	16.0%
EBIT Interest Coverage Ratio	n/a	n/a	n/a	n/a	9.9

Source: FRC/Company

No outstanding options are in-the-money

C\$	Options	Strike Price	Value
Total Outstanding	10,384,750	\$0.44	\$4,586,350
In-the-Money	-	-	-

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

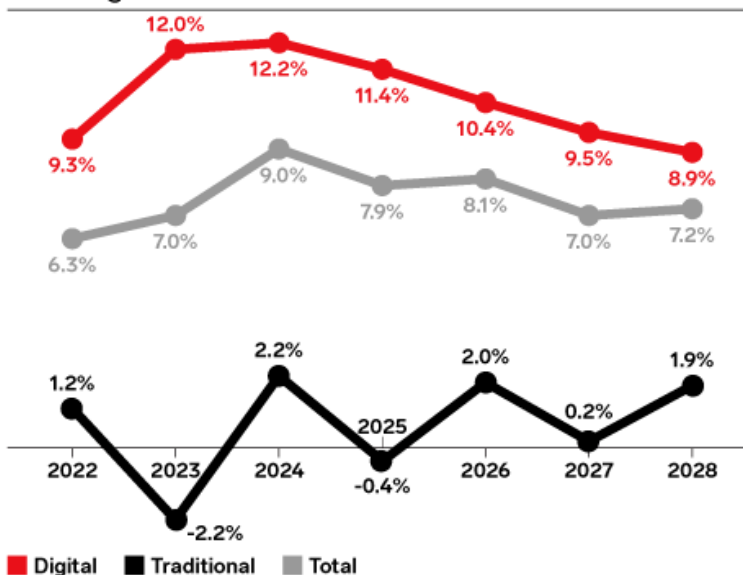
Source: FRC/Company

## Sector Outlook

### Ad Spending Growth for Digital, Traditional, and Total Media Worldwide, 2022-2028

% change

It is estimated that global digital ad spending will grow 12.2% this year (previously 13.2%), compared to 12.0% in 2023, and 9.3% in 2022



Note: digital ad spending 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; traditional media ad spending includes magazines, newspapers, out-of-home, radio, and TV  
Source: EMARKETER Forecast, March 2024

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Source: eMarketer

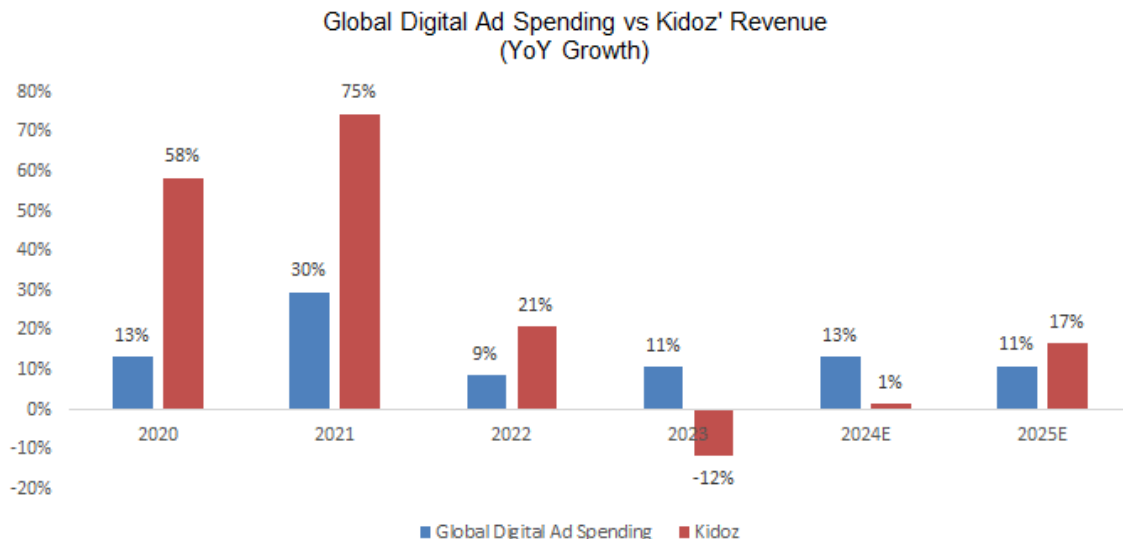
## FRC Projections and Valuation

From 2021 to 2023, KIDZ's revenue growth outpaced global digital ad spending growth by 1.3x on average

As Q2 revenue was lower than expected, we forecast KIDZ's revenue growth at 1% for 2024 (previously 13%), and 17% for 2025 (previously 15%), trailing global digital ad spending growth by 0.7x (previously 1.2x)

We are lowering our EBITDA and EPS estimates accordingly

As a result, our DCF valuation decreased from C\$0.98 to C\$0.83/share



Source: FRC / Various

FRC Forecasts	2024E (Old)	2024E (New)	2025E (Old)	2025E (New)
Revenue	\$15,039,000	\$13,500,000	\$17,250,000	\$15,750,000
EBITDA	\$1,350,110	\$505,505	\$1,697,963	\$1,211,915
Net Profit (Loss)	\$344,003	-\$139,395	\$611,378	\$441,353
EPS	\$0.00	\$0.00	\$0.00	\$0.00

DCF Valuation	2024E	2025E	2026E	2030E	Terminal
Funds Flow from Operations (US\$)	1,042,788	863,593	2,281,557	9,125,897	
Change in Working Capital (US\$)	(203,502)	(193,493)	(212,842)	(311,622)	
Cash from Operations (US\$)	839,286	670,100	2,068,714	8,814,275	
CAPEX (US\$)	(94,315)	(100,000)	(100,000)	(100,000)	
Free Cash Flow (US\$)	744,971	570,100	1,968,714	8,714,275	
Present Value (US\$)	723,354	492,052	1,510,392	4,173,765	64,431,640
Discount Rate	12.5%				
Terminal Growth	3.0%				
Present Value (US\$)	\$80,419,203				
Cash - Debt (US\$)	\$729,829				
Fair Value (US\$)	\$81,149,032				
Shares O/S	131,304,499				
<b>Value per Share (C\$)</b>	<b>\$0.83</b>				

Source: FRC

### Digital AdTech Companies

Company	2023 Revenue Growth	2024 Revenue Growth Forecast	EV/R (forward)
Viant Technology Inc.	13%	19%	0.76
Kidoz Inc.	-12%	1%	0.85
Omnicom Group Inc.	3%	6%	1.55
The Interpublic Group of Companies	-1%	0%	1.55
Criteo SA	-3%	10%	2.35
LiveRamp Holdings Inc.	8%	10%	1.91
Integral Ad Science Holding Corp.	16%	14%	3.47
Pubmatic Inc.	4%	9%	1.97
Magnite Inc.	7%	11%	3.57
Alphabet Inc.	9%	13%	5.75
AppLovin Corp.	17%	35%	7.22
META Platforms Inc.	16%	20%	8.13
The Trade Desk Inc.	23%	26%	20.02
<b>Average (excl. outliers)</b>	<b>8%</b>	<b>13%</b>	<b>3.26</b>

Source: S&P Capital IQ / FRC

KIDZ's forward EV/R of 0.9x (previously 1.6x) is significantly lower than the sector average of 3.3x (unchanged)

Our comparables valuation decreased from C\$0.52 to C\$0.46/share, driven by our lower revenue estimate

We are **maintaining our BUY rating**, and **adjusting our fair value estimate from C\$0.75 to C\$0.65/share** (the average of our DCF and comparables valuations). While Q2 revenue fell short of expectations, we remain positive on the stock, given its steeply discounted EV/Revenue, and our robust outlook on the sector.

### 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

<b>INCOME STATEMENT</b>				
(in US\$) - YE Dec 31st	2022	2023	2024E	2025E
<b>Total Revenue</b>	<b>15,097,056</b>	<b>13,326,824</b>	<b>13,500,000</b>	<b>15,750,000</b>
Cost of Sales	9,973,211	8,392,767	7,087,500	8,190,000
<b>Gross Profit</b>	<b>5,123,845</b>	<b>4,934,057</b>	<b>6,412,500</b>	<b>7,560,000</b>
<b>Expenses</b>				
Selling & Marketing	1,039,713	1,268,218	1,282,500	1,338,750
Development	2,496,877	2,999,079	3,358,968	3,526,917
Stock Awareness Program	161,332	146,300	-	153,615
Stock Based Compensation	696,248	515,116	257,558	270,436
Compensation	760,781	713,335	499,335	524,301
G & A	760,936	758,606	766,192	804,502
<b>EBITDA (excl. SBC)</b>	<b>-95,794</b>	<b>-951,481</b>	<b>505,505</b>	<b>1,211,915</b>
Amortization & Depreciation	586,202	588,488	411,942	422,240
<b>EBIT</b>	<b>-681,996</b>	<b>-1,539,969</b>	<b>93,564</b>	<b>789,675</b>
Interest & Bank Charges	185	1,049	-	-
Exchange Rate and Unusual Items	(119,543)	16,002	-	-
<b>EBT</b>	<b>-1,497,602</b>	<b>-2,038,034</b>	<b>-163,994</b>	<b>519,239</b>
Income Taxes	-150,489	-25,978	-24,599	77,886
<b>Net Earnings for the period</b>	<b>-1,347,113</b>	<b>-2,012,056</b>	<b>-139,395</b>	<b>441,353</b>
EPS	-0.01	-0.02	-0.00	0.00
<b>BALANCE SHEET</b>				
(in US\$)- YE Dec 31st	2022	2023	2024E	2025E
<b>Assets</b>				
Cash	2,363,530	1,469,224	1,465,868	2,035,968
Accounts receivable	7,400,282	6,261,305	6,887,436	7,576,179
Prepaid expenses	71,248	102,895	113,185	124,503
<b>Current Assets</b>	<b>9,835,060</b>	<b>7,833,424</b>	<b>8,466,488</b>	<b>9,736,650</b>
Property and equipment	33,522	29,234	29,234	29,234
Goodwill, intangible assets, and other	4,518,501	3,944,422	3,632,480	3,310,240
<b>Total Assets</b>	<b>14,387,083</b>	<b>11,807,080</b>	<b>12,128,202</b>	<b>13,076,125</b>
<b>Liabilities &amp; Shareholders' Equity</b>				
Accounts payables & accrued liabilities	5,611,421	4,605,173	5,065,690	5,572,259
Derivative	51	-	-	-
Lease	32,116	7,605	7,605	7,605
Loans payable/ borrowings	44,296	-	-	-
<b>Current Liabilities</b>	<b>5,687,884</b>	<b>4,612,778</b>	<b>5,073,295</b>	<b>5,579,864</b>
Lease	7,440	-	-	-
<b>Shareholder's Equity</b>				
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)	(44,137,366)	(43,696,013)
<b>Total Liabilities &amp; SE</b>	<b>14,387,083</b>	<b>11,807,080</b>	<b>12,128,202</b>	<b>13,076,125</b>

<b>STATEMENTS OF CASH FLOWS</b>			
<b>(in US\$)- YE Dec 31st</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
<b>Operating Activities</b>			
Net earnings for the period	-2,012,056	-139,395	441,353
<b>Items not involving cash</b>			
Depreciation	588,488	411,942	422,240
Gain on derivative liability	(51)	-	-
Deferred income tax expense	70,140	-	-
Unrealized foreign exchange loss	(1,407)	-	-
Stock Based Compensation	515,116	-	-
	<b>-839,770</b>	<b>272,547</b>	<b>863,593</b>
Accounts Receivable	1,054,025	(626,131)	(688,744)
Prepaid Expenses	(31,647)	(10,290)	(11,318)
Accounts payable and accrued expenses	(1,006,248)	460,517	506,569
<b>Changes in working capital</b>	<b>16,130</b>	<b>(175,903)</b>	<b>(193,493)</b>
<b>Cash from (used in) operations</b>	<b>-823,640</b>	<b>96,644</b>	<b>670,100</b>
<b>Financing activities</b>			
Proceeds from secured borrowings, net	(29,484)	-	-
Equity	(517)	-	-
Payment on operating lease liabilities	(31,951)	-	-
<b>Cash provided by financing activities</b>	<b>(61,952)</b>	<b>-</b>	<b>-</b>
<b>Investing activities</b>			
Acquisition of equipment/subsidiary	(8,714)	(100,000)	(100,000)
Security deposits	-	-	-
<b>Cash used in investing activities</b>	<b>(8,714)</b>	<b>(100,000)</b>	<b>(100,000)</b>

**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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The distribution of FRC's ratings are as follows: BUY (67%), HOLD (3%), SELL / SUSPEND (30%).

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