Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Q1 2017 Earnings Update

Date: **05/08/17**

12- 24 month Price Target: **$.42 ($USD)**

Allocation: **5**

Closing Stock Price Prior to Initiation on 10/13/16: **$.14 ($USD)**

Stock Price @ Close on 05/05/17: $.28 **($USD)**

ID Watchdog, Inc.

(Stock Symbol - Other OTC: IDWAF)
(Stock Symbol - Toronto SXV: IDW.V)

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ID Watchdog reported Q1 -2017 earnings the other day and the numbers were in line with our estimates with a few nuances we will cover briefly. Revenues finished at $3.54 million versus our estimate of $3.47 million, and net income finished at $182,000 versus our estimates of 214,000.

In general, expenses were higher than we anticipated, but as we noted in the initial coverage, that is typical for Q1 because the quarter generally carries some ramp up in costs associated with the new batch of new befits business, including infrastructure to maintain it. Translation: accelerated expenses in Q1 means new business was added that needs support, which is of course a good thing. Granted, it's the *level* of new expenses that require some scrutiny, but there were a couple of items in the earnings release that we will focus on just for a moment to illustrate why we are perhaps even more bullish in the story than when we initiated.

First, recall, they had some remnant/late enrollments that that will show up in Q2, which is a new situation (as far as we know). That means Q1 probably included some expenses that were related to business *levels* that we won't see until Q2.

Second, CEO Mike Greene noted the following in the earnings release:

Mr. Greene concluded, "In 2017, we are accelerating enhancements to our service offerings, significantly expanding our sales force and increasing our marketing efforts in order to drive top-line growth and generate long-term value for our shareholders."

This is subtle on the face, however, management has historically been quite tight lipped about nearly everything concerning the story, so we actually think this comment is a relative mouthful. On one hand, "accelerating enhancements" means spending money (expenses), but also presumably to take advantage of opportunities that are apparently developing. We may revisit that after we see Q2 numbers because Q1, as noted, is always padded. However, they *have* provided some expected margin guidance which we have worked into the model. The bigger issue is the focus on *"driving top line growth*". As we said, IDWAF management has historically been very methodical about what they say and what they do, thus, we interpret this comment to mean that they are pursuing some clear paths to accelerated growth.

Lastly, we were also encouraged by something else that was buried in the release and the corresponding numbers.

Aside from the employee benefits channel, the release notes that they *"anticipate continued increases in our direct website subscriptions"*. We have been of the view that they were essentially trying to wind-down, or at least de-emphasis this part of the business. To that end, we have actually modeled an ongoing *contraction* in this piece of the business. We need to get a bit of color from the Company on this, but again, that provides a little bump in our model if in fact they continue to grow the segment. We're also curious about what changed that direction, or perhaps we just misunderstood it from the beginning.

To reiterate, the Q1 numbers held no surprises and we think further validated our view that the Company should continue to grow into better valuations. We are beginning to think that the likelihood for revenue growth in 2018 and beyond may prove higher than our current estimates. However, for now, we reiterate or price target and our allocation, and again, will look to additional visibility to revisit each of those as well as our model assumptions. We have provided a new look at the model below as well.

Projected Operating Model

I.D. Watchdog, Inc.						
Projected Operating Statement						
Trickle Research LLC						
	(actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/2017	6/30/2017	9/30/2017	12/31/2017	Fiscal 2017	Fiscal 2018
Revenue	$ 3,535,300	$ 3,694,427	$ 3,698,191	$ 3,701,993	$ 14,629,911	$ 18,580,954
Cost of revenue	$ 1,044,357	$ 1,028,829	$ 1,029,755	$ 1,105,952	$ 4,208,893	$ 5,233,856
Gross profit	**$ 2,490,943**	**$ 2,665,598**	**$ 2,668,436**	**$ 2,596,041**	**$ 10,421,018**	**$ 13,347,097**
Operating expense:	$ -	$ -	$ -	$ -	$ -	$ -
General and administrative expense	$ 788,713	$ 584,026	$ 584,346	$ 634,669	$ 2,591,755	$ 2,809,381
Benefit Broker Commission Expense	$ 883,736	$ 905,811	$ 905,811	$ 905,811	$ 3,601,168	$ 4,642,678
Sales and marketing expense	$ 605,734	$ 489,443	$ 489,819	$ 490,199	$ 2,075,195	$ 2,438,095
Share-based compensation expense	$ 74,998	$ 75,000	$ 50,000	$ 50,000	$ 249,998	$ 200,000
Depreciation and amortization expense	$ 19,709	$ 20,005	$ 20,305	$ 20,609	$ 80,628	$ 85,575
Total Operating Expenses	**$ 2,372,890**	**$ 2,074,284**	**$ 2,050,281**	**$ 2,101,289**	**$ 8,598,744**	**$ 10,175,729**
Operating income	**$ 118,053**	**$ 591,314**	**$ 618,155**	**$ 494,753**	**$ 1,822,275**	**$ 3,171,368**
Other income (expense):	$ -	$ -	$ -	$ -	$ -	$ -
Gain (loss) on warrant liability	$ -	$ -	$ -	$ -	$ -	$ -
Interest expense, net	$ (30,986)	$ (5,426)	$ 3,862	$ 12,853	$ (19,698)	$ 103,970
Litigation Provision	$ -	$ -	$ -	$ -	$ -	$ -
Gain (loss) on Disposition of Assets	$ -	$ -	$ -	$ -	$ -	$ -
Provision Loss	$ -	$ -	$ -	$ -	$ -	$ -
Other	$ 94,935	$ -	$ -	$ -	$ 94,935	$ -
Total Other Income (Loss)	**$ 63,949**	**$ (5,426)**	**$ 3,862**	**$ 12,853**	**$ 75,237**	**$ 103,970**
Tax Provision	$ -	$ -	$ -	$ -	$ -	$ -
Net gain (loss) and comprehensive gain (loss) applicable to ordinary	**$ 182,002**	**$ 585,887**	**$ 622,018**	**$ 507,605**	**$ 1,897,512**	**$ 3,275,338**
Basic net gain (loss) per share applicable to ordinary shares	**$ 0.00**	**$ 0.00**	**$ 0.00**	**$ 0.00**	**$ 0.014**	**$ 0.023**
Diluted net gain (loss) per share applicable to ordinary shares	**$ 0.00**	**$ 0.00**	**$ 0.00**	**$ 0.00**	**$ 0.012**	**$ 0.020**
Weighted average number of shares outstanding - basic	**139,984,597**	**139,984,597**	**139,984,597**	**139,984,597**	**139,984,597**	**143,431,677**
Weighted average number of shares outstanding - fully diluted	**151,770,621**	**155,680,803**	**161,648,759**	**162,572,530**	**157,918,178**	**164,425,173**

Rating System Overview

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20 stock coverage list we suggested and leaving some room to perhaps add another 5 of the names from our profiles). We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those hung up on the tradition of more typical rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.

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