

## **09/10/2020: Versus Systems (VRSSF) CEO Call Notes**

In our June *Consilience Report* we featured an unknown, micro-cap company in the gaming industry. The company is Versus Systems (VS/VRSSF). It trades on the TSXV and OTC markets. VS operates in the in-game advertising space. They partner with brand companies to place rewards-based advertisements inside popular console and mobile video games like Fornite and PUBG. VS accomplishes this through their patent-protected *Winfinite* platform.

The company's very small, sports little (but growing) revenues and large operating losses. It's the closest thing to a venture investment in public markets.

I had the opportunity to chat with founder and CEO Matthew Pierce to discuss a few pressing questions I had about the company, it's platform and the path ahead.

Below is a copy of my notes. I'll break it down into topic headers and then Matthew's response to each of those questions.

### **Topic 1: Winfinite Platform & Patent Protections**

VS has a few sets of patent protections for their *Winfinite* IP. The first revolves around location and date-of-birth (DOB) verification. The company needs this IP to confirm a gamer's age and ensure they're allowed (by state law) to participate in a prize-winning scheme.

#### **New Patent Granted**

The second set deals with maximizing the skill required for a given game and tournament. The goal with this patent is to weigh "skill" higher than "chance" in rewards-based games. This is **huge** for a couple reasons. First, skill-based games allow more companies to feature in-game rewards. You don't *really* "win" chance-based games. The probabilities simply fall in your favor.

Additionally, the IP allows companies to offer rewards-based prizes in more states, countries and territories than before. This increases VS' *Winfinite* platform reach by orders of magnitude. Companies on the *Winfinite* platform are automatically in legal compliance with states and municipalities due to this patent win.

The company issued a press release yesterday which you can read [here](#).

#### **Other Patents in Pipeline**

Pierce mentioned a couple other patents currently in the pipeline. And while he couldn't discuss specifics, he included brief descriptions of the two:

- **Geo-location based IP around prizes:** Brand companies can target specific prizes based on where the gamer lives. This is important because winning one prize in NYC might be different than another in Missouri.

- **Back-end software IP for SMB brand prizes:** Allow smaller, more local companies to offer rewards-based prizes for products/services. This reminds me of Square. Solve the problem for the little guy. Doing this opens the door to a **vast** number of smaller potential brand partners.

## Topic 2: Direct Competitors & Peers

Pierce said there's a couple ways to think about VS' competition. From a pure advertising dollar perspective, they compete with FB, GOOGL and TWTR. After all, platforms compete on advertiser dollars. On a video-game level, there's Unity, TapJoy and Ad Colony.

Unity will likely IPO at roughly \$6B valuation. They generate over \$300M in advertising revenue. Opera Networks bought Ad Colony for \$350M in 2014 for their in-game advertising technology. TapJoy is a private company, but [Craft.co offers clues](#) on their valuation. TapJoy's raised around \$96M since 2007.

As of September 2020, investors valued TapJoy at \$280.3M. VS sports a \$28M market cap.

Here's the catch: none of these companies do what Versus does. Ad Colony and TapJoy offer video-based advertising. Ads like, "watch this 30 second clip to get 5 extra lives." Only VS operates in the rewards-based advertising space.

## Topic 3: Integration and Technical Issues

"The current integration implementation is the conkiest it's ever going to be." Those were Pierce's words when I asked about the current state of integrating new brand companies onto the platform.

Pierce explained that at the start, there was a lot of "white-glove and hand-holding" with their initial customers. Which makes sense. You want to get it right with your first customers. This reminds me of Bill Gurley's expression "do things that don't scale".

Over time, Pierce said the integration process will get much smoother. But there's a caveat. VS integration will never be as seamless as FB or GOOGL ads. This makes sense, though. FB ads require a photo and a website. That's it.

### Creating an Inventory of SKUs

With the *Winfinite Platform*, companies need specific discount items (SKUs) to offer to gamers. And for brand new companies on the platform, this takes time.

The good news is there's snowball effects with brand partners. Pierce noted that once a brand partner is on the platform, *Winfinite* creates an "inventory of SKUs" for that particular brand company. The more SKUs a company has, the less integration required for each new in-game reward advertisement.

### Integration Time-Table

Smaller, indie-like games take around a week to integrate. VS has an "off-the-shelf" SDK that allows smaller games to easily access its *Winfinite* platform.

Larger integrations take longer. Which make sense. In HP's case, VS had to develop the entire software backend, as HP is a hardware-first company.

Going forward, integrations with Sony and Xbox *should* take less time as those companies already have rewards-based elements within their games (achievements).

## Topic 4: Capital Allocation & Biggest Hurdles

The biggest hurdle VS faces is the number of users on their *Winfinite* platform. It's a numbers game with flywheel effects if they do it right. The more people on the platform, the more attractive the platform becomes to both game developers and brand companies.

Given that hurdle, Pierce sees the company investing heavily into sales and marketing to grow the user base. The company hired a few new sales people and developed a dedicated sales staff (first time for the company).

We should see increased spending on SG&A and R&D with continued operating losses in the near-term. This shouldn't surprise investors.

VS is burning ~\$400k/month, a figure that hasn't changed in 3 years. Pierce noted the only way that the burn rate grows over time is if they're ramping up revenue and user base growth to reach scale.

Pierce also listed a couple items that could increase the burn rate. Granted these are one-off expenses:

- Bespoke applications (white-glove for larger integrations)
- Hiring more engineers (looking at 3 extra hires max)

## Topic 5: Funding

Pierce said the company will do an equity raise in the near-term (3-6 months). The company's primary funding method so far is small, private PIPEs. They're not opposed to doing debt issuance, but would rather wait until they are cash-flow positive to issue debt (if they need it).

## Topic 6: Beyond Gaming

We ended the call with a discussion on the company's plans beyond gaming. Like Unity, VS wins through expanding beyond video games. It's something Pierce is *very* excited about.

Pierce sees the *Winfinite* platform in all areas of user content engagement from Netflix binging to fitness apps. And if you think about it, it makes sense. Reward users for interacting with their app or service through brand partnership products and services. The more industries the platform penetrates, the larger the potential user-base.