

Bidstack, Inc (BIDS): Creating The Native In-Game Video Game Advertising Channel

Bidstack, Inc. (BIDS) is a provider of native in-game advertising that is dynamic, targeted, and automated, serving the global video games industry across multiple platforms. Its proprietary technology is capable of inserting adverts into natural advertising space within video games

TV continues to lose viewership and ad revenue. At the same time, video game publishers are making more free-to-play versions of their games while receiving backlash from micro-transactions. This creates a two-sided problem. On one hand, brands and advertisers need new outlets to purchase ad inventory to reach profitable, hard-to-reach demographics. On the other hand, video games are always looking for new ways to generate revenue as free-to-play becomes the standard release mechanism.

Advertisers and brands can no longer ignore the video game outlet for advertising inventory. Catalyzed by COVID, [79% of US consumers now play video games](#) regularly. Gamers over-18 are choosing to spend [more time on video games](#) than social media outlets like Facebook. This trend will continue to accelerate as video games become more than competition, but social experiences. Add to that the 43% of people using ad-blocking technology while on social media/internet and you can have a black hole of advertising spend.

On the surface, video game advertising solves this two-sided problem. Advertisers and brands have access to one of the hardest-to-reach demographics while providing video game developers/publishers another revenue stream.

But certain ads work better than others in the video game space. For example, people hate pop-up ads or games made for the sole purpose of promoting a product.

The *best* ads are native. They look and feel like they're a natural part of the video game environment. This means **native in-game advertising** solves the two-sided problem for advertisers, brands and developers. The developers don't want to compromise the quality/look of their game for brands. And brands don't want the negative publicity of "ruining" a game for the sake of ad placement.

BIDS is creating the first SSP advertising platform that will enable advertisers and brands to programmatically purchase native, in-game advertising inventory at scale while specifically targeting the demographic of the individual gamer. Unlike traditional video game advertising, BIDS allows brands to change their marketing campaigns in *real-time* without changing the integrity or feel of the game.

The company is the first-mover in this space. If they succeed, they will write the rules for programmatic in-game advertising. This would make them the *go-to* platform for brands, advertisers and video game developers. The tail-end value of a platform like that is hard to estimate. But if successful, we believe the company is worth ~10-20x its current market cap of ~\$56M.

Solving The Two-Sided Marketplace Problem

BIDS sits in the middle of a two-sided marketplace. Game publishers and developers sit on the supply side. Advertising agencies, brands, and programmatic advertising platforms (DSP) rest on the demand side.

Here's how it works. BIDS secures exclusive access to native in-game advertising space within video games from the developers/publishers. Think of BIDS buying "billboards" along a highway. After securing ad-space in those games, BIDS sells that space either directly to specific brands or via DSPs like The Trade Desk (TTD). In fact, BIDS is the first-ever fully integrated video-game SSP working with DSPs. It's the first time video game inventory has been available on a DSP platform.

BIDS does this through its lightweight software development kit (SDK). SDKs let game developers easily plant BIDS' advertising code into the game's software. BIDS' SDK works cross-platform covering mobile, PC, and hardware consoles. This SDK allows BIDS to implant advertising on *any* 3D space inside a video game.

The company generates revenue from both the sale of advertising space and a percentage split of the profits received by video game publishers and developers.

Benefits for Game Developers

There are a few reasons game developers would work with the BIDS platform. First, it allows the publisher to generate revenue while maintaining the integrity of the video game. Second, BIDS technology protects in-game environments. This brings publishers to the \$500B advertising spending pool party.

Developers have *full control* over the ad formats, brand approvals, and what their gamer sees. Finally, integration is seamless and free. In 48 hours, game developers can implement the BIDS platform and generate revenue from their game without changing *anything* in the game.

Benefits for Advertisers

Advertisers walk a fine line between showing consumers new products/services and pissing them off with another unskippable pop-up video. It's why 43% of internet users have ad-blocking technology (let's be honest, who are the 57% that **don't** use it?).

The holy grail of advertising is creating a native experience that showcases a brand's product or service without intruding on the integrity of the communication medium. We hate TV commercials but love the Taco Bell Snapchat filter (I wrote about this idea [here](#)).

BIDS enables advertisers to create native in-game campaigns targeting *specific* users based on the demographic of the individual gamer (age, gender, location). Native ad-space means that advertisements will appear in places that gamers are used to seeing in real life. Think billboards, sides of soccer fields and banners in racing games. Native in-game ads translate to higher interaction and engagement than other forms of gaming advertising. BIDS eye-tracking case study shows that 94% of people interact with in-game ads.

CEO James Draper notes that *"When benchmarking the amount of attention our in-game ads receive compared to display, our in-game ads consistently outperform those traditional ad channels, in some cases by more than double."*

In other words, you're getting more engagement for a fraction of the cost of traditional media advertisement slots.

One impressive feature with BIDS technology is they're able to show *different* ads within the same game. Let's say two people are playing Football Manager (BIDS' early gaming partner). The home team is an 18YR old teenage girl in New York. The away team is a 12YR boy from London. Though the 18YR teenage girl and 12YR boy are playing the same game, they will see two different ads based on *their* demographics.

As easy as it is to integrate into video games, BIDS makes it *just as easy* to run programmatic campaigns. The BIDS platform aggregates inventory from several leading game publishers. This allows advertisers to choose the inventory they want to buy in one easy-to-use AdConsole. That's the biggest competitive advantage for the BIDS platform (which we'll discuss later).

Finally (and most importantly), BIDS allows advertisers to engage a hard-to-reach audience of high-earning gamers. Gaming isn't middle-aged men in their mothers' basements. It's men and women both old and young. They have money and understand the power that brands have in social circles.

The Three Types of Gaming Ads & How They Work

While native in-game advertising offers the most user-friendly experience, there are other ways advertisers and brands can interact with video games. It's important to know *what* these methods are to see *why* native in-game is the best option. We're using data from the [2014 IBA Games Advertising Ecosystems Report](#).

Three Types of Gaming Ads

1. Around-Game Ads

Around-Game ads display digital videos while the game loads or show ads while the game transitions scenes. Gamers can skip the ads after a predetermined time (think YouTube ads). Free apps use this method almost exclusively. They're the annoying videos that pop up after you pass level 1,304 on Candy Crush.

I don't have to tell you this is an ineffective method. Around-game ads create an obtrusive environment where gamers can't *wait* to skip the ad.

2. In-Game Ads

This is where BIDS operates. In-game ads come in two flavors: dynamic and static. Static ads are simple, unchanging in-game product placements or virtual billboards. Dynamic ads can be updated remotely through an ad server. This allows more flexibility and efficiency for ad campaigns.

While static in-game ads beat around-game ads, they're not as good as **dynamic** ads.

Static ads are usually hard-coded into the video game. This means if an advertising company wanted to change the ad campaign, they'd need the game publisher to change the hard code. How fun does that sound?

Dynamic ads on the other hand can update remotely via ad servers. This means advertisers can change and update their campaigns without needing to alter the software code.

3. Custom Branded Games (Advergames)

Advergames are games created by brands to promote their products or services. Think of Chipotle's *Scarecrow* game or Naked Juice's integration with Facebook's *Farmville 2*.

These are cute attempts to promote a brand or product. But when it comes to scaling an advertising business, we won't worry about advergames.

How BIDS Uses In-Game Ad Space

There are three core types of games BIDS will purchase ad-space to sell:

1. **Circuit-based**
2. **Stadium-based**
3. **Open World**

Gaming investors will understand these terms. For the non-gamers, circuit-based games include racing games. Think of NASCAR, Formula-1, or DiRT Rally racing games. Here's an example of circuit-based ads inside a racing game (see on right).



Stadium-based games are self-explanatory. Any game that includes a stadium is the perfect place for native in-game advertising. Think of FIFA, Madden NFL, NHL. Gamers experience real-life ads in these mediums. In other words, gamers are conditioned to see ads when interacting with stadium-based experiences (see below).



Finally there's open world gaming experiences. These are your *Grand Theft Auto*, *Red Dead Redemptions*, and *Spiderman* games. Games that have massive "maps" and feel like real life (Dwight playing *Second Life* on the Office).

Open world games are perfect for billboard ads within city sky-lines or storefronts. New York City floods inhabitants with ads 24/7. Why can't advertisers do the same thing inside a virtual New York City?

BIDS core game types are also the most popular video games. This further encourages advertisers and developers to use the platform.

The Size of The Pie

If you're looking for a precise estimation of the video game advertising industry, skip this section. Obsessing over TAMs is a waste of time for a couple of reasons. First, TAMs are *never* as big or small as they seem. Second, if we spend most of our time focusing on the qualitative advantages of the business, the TAM will take care of itself.

That said, we can make a few rough observations on the gaming and advertising industry. Video games will generate ~\$160B in revenue in 2020 from 2.7B worldwide gamers. Despite the *massive* revenues, the video game advertising market is worth ~\$4B. It's expected to reach [~\\$5B by 2024](#).

At \$160B in revenue, the video game market is bigger than the movie and music industries **combined!** Yet when we consider that the US spent \$250B in advertising, video games is a rounding error (1.60%).

Over time, more advertising spend will shift to video games (for reasons mentioned above). How much of the pie video games take I have no idea. But the most bullish aspect of video game advertising isn't the minuscule penetration rates (though it helps). The greatest tailwind is the (*gulps*) near-infinite scalability of advertising inventory.

Most real-world advertisements are rival goods. A banner on a highway billboard means another brand can't use that space. Of course, you can build more billboards (and anyone that's driven from MD to South Carolina understands this competition). But at a certain point, you hit NIMBYism (Not In My Back Yard). You can only build *so many* billboards.

Video games have infinite skill. As long as developers create more core games (circuit-based, stadium-based, and open-world) there will be more ad spaces to buy. Scalability is a function of developer creativity and hardware bandwidth. With more games transitioning to the cloud/mobile, the options increase exponentially.

Though I don't know the size of the video game advertising pie, I know it will be **much larger** than it is now ten years from now.

Founder-Led With World-Class Executives

BIDS was founded by James Draper in 2015. He started the company as a one-man shop focusing on digital out of home (DOOH) advertising (digital billboards in NYC, etc.). He quickly realized the technology was better suited to the video game industry.

Draper's company is the first-ever CrowdCube (like SeedInvest in the US) funded company to trade on the London Stock Exchange.

Before starting BIDS, Draper spent 15 years in various commercial advertising roles. He's the largest shareholder in the company and owns ~16-20% of the business. When asked about a recent stock sale in 2020, Draper responded, saying (paraphrasing):

"I wanted to take care of some personal matters so I could focus on the business without worrying about that."

My guess: he wanted a nest egg to protect his family so he can focus on building the business.

World-Class Committee Members

What impresses me the most about Draper isn't his technical knowledge (which is apparent), nor is it his charisma (not a natural salesman). The most impressive aspect of Draper is his ability to recruit some of the sharpest talents in the video game industry.

A glance at BIDS 2019 Annual Report shows a star-studded cast of video game titans:

- Will Kassoy: Former SVP of Publishing at Activision Blizzard
- Jon Epstein: Former CEO of GameSpot (no, not Gamestop -- you can keep reading)
- Bryan Neider: Former SVP of Electronic Arts
- Andrew House: Former Global CEO of Sony PlayStation

A group like that makes you wonder, “what is it about BIDS that has some of the highest-ranking executives at large companies joining?”

Why The Opportunity Exists: Ugly Financials Hide Valuable Tech

BIDS is a unique company because it won't appear on a value screen or a growth screen. The company's traded short-term revenue growth for long-term technology dominance. They want to get their product **perfect** before going to market.

This product-first mindset starts at the top with BIDS' Executive Chairman Donald Stewart. Here are Stewart's thoughts on revenue vs. product development in the 2019 Annual report (emphasis mine):

*“As we stated in our unaudited interim results for the six months ended 30 June 2019, during 2019 we **made the strategic decision not to prioritise the acquisition of new games and additional advertising inventory in order to give our technical development and product teams the freedom they needed to carry out significant development work.** In addition, we were not disappointing major video games developers and publishers by having to hold off filling their advertising inventory while necessary development work took place.”*

Further down we read similar sentiment (emphasis mine):

*“As a result of the experience gained in 2019, the Board believes that **Bidstack's medium and longer-term interests require the Company to continue with its strategy of prioritizing technical investment over seeking short term revenues in order to take full advantage of the potentially significant shifts in technology and media planning capabilities which are underway.** While we are working hard to increase the breadth of our inventory of games in H1 2020 and with some success, the Board continues to expect that revenues in H1 2020, although higher than total revenues for 2019, will continue to be minor and that material revenues for 2020 will start to occur only in the second half.”*

The company sports low revenues because it's not prioritizing them. That's a position of strength for the long-term. Unfortunately, this mindset isn't popular on the Street. BIDS share price has crashed 70% since its May 2019 highs as short-term traders grew impatient waiting for the company to flip the revenue switch.

Focusing on creating the best product forced the company to issue more shares to fund operations. Again, at face value, no investor wants to see dilution. But if that dilution enables the company to create the largest video game ad inventory platform I'm okay with that.

Why The Opportunity Exists: Bonus Round

There are a couple of other reasons why this opportunity exists. First, the company is a micro-cap stock trading on the London Stock Exchange (LSE). This keeps it out of the reach of larger funds that would otherwise invest in the business. Plus it makes it harder for US-based investors to find the company.

Second, the stock is rather illiquid. I got filled on my initial stake but have yet to get filled on my subsequent order requests. Those with larger sums will face an even tougher challenge.

What's Bidstack Worth?

BIDS is trying to make something worth billions of dollars. Their goal is to become the world's foremost advertising network for video games. In short, if advertisers want to place their brand in front of gamers in a non-intrusive, contextual manner, they *must* go through BIDS technology.

Building this technology takes time and involves complex decisions and engineering solutions. Native in-game advertising hasn't *officially* been recognized as an advertising category. BIDS is working with the Internet Advertising Bureau to standardize "gaming" as a legitimate category. Once recognized, BIDS technology becomes the go-to mechanism to exploit the new-found advertising channel.

In that world, the revenue and earnings potential is astronomical. The closest example we have of this is The Trade Desk (TTD). Here's TTD's explanation of their platform in their S-1 filing:

"Our platform makes it possible to message specific ideas to specific people. We give advertisers of all sizes the power to have simultaneous 1-to-1 customized interactions with billions of people around the world. Most advertising dollars are spent on awareness, where a brand pushes new information and ideas to a broad audience. Conversely, search engines respond to specific requests from individuals for information. Our technology combines the best of both, making it possible to push out a precise idea or message to a targeted audience with global scale."

BIDS is doing this inside the video game industry through lightweight, dynamic in-game advertising integrations.

Since 2014, TTD's grown revenue from \$44M to >\$660M in 2019 with 76% gross margins and ~20% operating margins.

Let's assume video game advertising grows from ~2% of total ad spend to 10% in the next ten years. That's \$25B in video game advertising revenue. Next, let's assume BIDS captures a mere 1% of that market. That's a \$250M revenue company.

Applying TTD's margins gives us \$190M in gross margin and \$50M in operating income. What would a company like that be worth? At 5x sales you're looking at a \$1.25B business (22x current market cap). Even at 20x operating income you get \$1B in shareholder value.

Whether video games consume 10% of total advertising spend is up for serious debate. There's also high uncertainty that BIDS only captures 1% of that video game advertising revenue market.

One thing we **do know** is that the company's technology (if built successfully) is worth **significantly more than the current market cap**.

Concluding Thoughts

BIDS is a high-risk, venture-like investment available in the public equity markets. They're building a highly complex, but highly profitable advertising platform. The prize is enormous if they execute. BIDS platform will benefit from massive network effects. The more ad space they have in their inventory, the more willing advertisers are to use BIDS' platform. This in turn incentivizes video game developers to offer more ad space to generate more revenue from advertisers.

Investors that position size accordingly have a *Dhando* investment on their hands: "Heads I win **a lot**, tails I lose a little."