



# 03/30/2021: Some Thoughts on Bidstack (BIDS) 2020 Annual Report

Operators,

Our In-game native advertising portfolio company, Bidstack (BIDS), released its 2020 Annual Report last Friday (03/26). If you're a new *Collective* member, we encourage you to read our original bull pitch [here](#).

BIDS is one of the most exciting (and highest-risk) investments in our portfolio. We view our BIDS bet as a long-term call option. We either 10x our money or lose it all. As such, we've sized small, risking ~100bps on the trade.

This short blurb will highlight three main things:

1. What the company did in 2020
2. What it wants to accomplish in 2021+
3. Reviewing Seismic Shift in Advertising Spend

Before we get into the nitty-gritty details, I want to discuss the Annual Report's format. I love how BIDS lays out the report. First, we get a letter from CEO James Draper. Then, we overview what the business did in 2020—finally, detailed objectives outlining what BIDS wants to accomplish in the coming year.

It's a refreshing take on a (usually) boring read. Whether the coherence of the report translates into operational success this year is another thing.

Anyways, let's get after it.

## BIDS FY2020 Business Accomplishments

The company made tremendous progress in three specific areas: Advertisers Offering, Publishers & Platforms Offering, and Product Development.

### Advertisers Successes

- Ran over 40 in-game advertising campaigns in 2020
- Established commercial agreements covering 30+ markets, signing 25 new partners to our Approved Partner Network
- Signed five agreements with the largest advertising agency holding groups
- Helped define a new ad category with the IAB
- Became the first multi-platform in-game advertising company to gain IAB UK "Gold Standard 1.1" certification

## Publishers & Platforms Successes

- Signing 5 games across 3 AAA game studios: Sega / Sports Interactive, Codemasters — an EA company, Ubisoft
- Signing VR game studio (Rezzil)
- Defining and built viewability SDK based reporting with publishers across three game genres (Racing, Open World, Stadium)
- Signing an exclusive 3rd party integrated development partnership with a leading game

## Product Development Improvements

On the product development side, the company made tremendous progress, including:

- Developing new ad approval features
- Creating new programmatic Deal ID set-up features
- Rebuilding Pubguard onto AdConsole infrastructure
- Built ad viewability into BIDS' SDK for real-time reporting
- Integrated supply-side platform to five demand-side platforms

## Business Progress Translates To Massive Topline Revenue Growth

These improvements translated to a record GBP 1.7M in 2020 revenue. For reference, the company generated GBP 140K in 2019. Of course, UK shareholders will quickly point out that BIDS lost GBP 6.9M in 2020 compared to GBP 5.3M last year.

Focusing on operating losses misses the point of what BIDS is trying to accomplish. The company *needs* to spend money to get its tech stack right. Operating profits *will come* if they build the best product for their two-sided marketplace.

For example, the company hired 20 new people in 2020. That costs money. Investments in product/tech cost money. We should expect another year of operating losses in 2021 and even 2022 as BIDS builds and scales its offering.

**It's revenue growth that matters.** Top-line growth confirms that customers are using the BIDS platform for in-game native advertising.

## BIDS 2021 Business Objectives

The company set 2021-2022 objectives for its three main segments: **Advertisers, Publishers, and Product Development.**

### Advertisers

- Raise awareness with global agency holding groups and advertisers
- Show ROI evidence with ad measurement
- Increase ease of purchase and scaling with premium inventory

Getting the above three points right is critical for BIDS to achieve industry-standard success. Advertisers need to know *how many eyeballs* they get on each ad. They also need to know how well the ad works when it comes time for brand recognition (i.e., mindshare grab).

Agencies need confirmation that the ad placements work (ROI) before allocating more dollars to BIDS in-game inventory.

## Publishers

- Grow our AAA and high-fidelity game portfolio and mobile publisher base
- Diversify our product offering to publishers
- Roll out our Pubguard security product
- Enhance our self-sign-up SDK rollout

BIDS is taking the *exact* right approach when it comes to its publishers. The company understands that the next big game could develop *anywhere*. Given the acceleration in gaming engines (like Unreal, Unity, etc.), virtually *anyone* can teach themselves to make a full-fledged video game.

To do that, the company must make its SDK as seamless as possible for *all* gamers, not just the AAA games everyone knows.

## Product Development

- Building an open exchange industry standard and infrastructure
- Continuing to develop our proprietary self-serve technology features
- Strengthening our safety features with Pubguard

These three objectives pave the way for BIDS to become the industry standard for in-game native advertising. Such developments cost money, which means further operating losses as the company prioritizes product over revenue.

## The Seismic Shift In Advertising Spend

Global advertising will shift dramatically over the next decade. Driving that shift is the massive inflow into video game advertising. The world's biggest brands are *just now* recognizing the importance of the gaming demographic and viewership growth.

In short, more people are playing/watching video games than ever before. And gamers, contrary to popular belief, sport higher-than-average incomes with more lavish discretionary spending. Moreover, brands have decades to take mindshare as they target younger audiences.

The global video game market grew 20% in 2020 to reach \$175B in revenue. Newzoo estimates the market will grow another 25% by 2023 to reach \$200B annual revenue. Despite this growth, video game advertising as a proportion of market revenue remains under-penetrated. The ads that



generate revenue mainly focus on reward-based video watching, interstitials, and banners -- but nothing in-game.

## BIDS' Ads Work Better Than Other Formats

This year BIDS released actual data on its ad performance. On average, BIDS ads are viewed 2.4x more than display ads, grabbed 20% more attention than Facebook ads, and spontaneously recalled 2.3x more often than standard display ads (see below).



## Concluding Thoughts: Long Way To Go, But Going In Right Direction

BIDS has a long way to go before we crown them industry de-facto kings. That said, they're moving in the right direction. Management has a clear vision with definable goals and objectives. CEO James Draper seems well-equipped to tackle the upcoming product development challenges.

The company will likely do a couple more equity raises, which shouldn't surprise investors. Remember, BIDS is very illiquid. We'll take every non-fundamental high-volume drawdown as a chance to add to our position.

UK investors won't like the equity raise. They won't like *not* seeing dividends. And they'll hate seeing further operating losses. But that's what BIDS needs to do to create the market and carve its niche.