



## INTRODUCING

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### COMPANY ANALYSIS ACUITYADS—AT-TSXV; ACUIF-PINK

*Acuity went from \$2 - \$30 in 2.5 years for InvestingWhisperer.com subscribers. We had to be patient—it dropped 50% before running up to be more than 10-bagger from our original price. It was the very first pick in our InvestingWhisperer newsletter—the technology and the fundamentals were very strong, but the stock suffered from investor fatigue. It benefited from the Stay-At-Home play during COVID, and soared as each quarterly came out. It's a great example of how I look at stocks. Here is the original report on AcuityAds.*

At US\$327 billion, digital advertising is big business and AcuityAds (AT-TSXv) is operating in the fastest part of it – programmatic advertising.

Programmatic advertising grew 22% in 2018. It's expected to be a \$33 billion market this year.

Programmatic advertising is where machine learning and AI--Artificial Intelligence--is used to direct advertisements to the most promising

customers.

There are very few constraints to growing this business. This isn't a people intensive business. It's not held back by manufacturing capacity. It isn't governed by commodity pricing. **It's capital-light.**

If you have the best technology in the programmatic ads business and you can deliver the highest ROI, clients will flock to you.

Connected televisions will be The Next Big Thing: soon our TV advertising will be curated to our individual preferences--just like you see on your laptop now as you surf the web--and Acuity will be delivering many of those ads. It's coming this fall, and will be a turbo-boost for the entire industrys.

Acuity ran into some problems in 2017 when a few customers began to game their system. They replaced cheaper banner ads with more expensive video ads without paying the higher price.

When Acuity had to cut these customers loose, revenue suffered, and the market was unforgiving, dropping from \$4+ to 60 cents. But Acuity has made all the right moves. They reworked their platform, improved the AI, fixed the loop holes.

The last couple quarters powered back to growth and confirmed that Acuity is generating the returns their clients expect.

The leader in the space is The Trade Desk. They are an \$8 billion company. Acuity has an \$74 million market cap by comparison.



The Trade Desk is the leader, and they deserve the best multiple. But here's the thing. The Trade Desk carries a 17x revenue multiple. Acuity is at a paltry 1x.

Acuity has already been on record that Q1 19 looks strong. I expect them to report those (allegedly) good Q1 numbers in late April. If they do, that will be THREE quarters under their belt with good solid numbers.

There's only 41 million shares out and management owns half of them. Fast growing revenue, no need for financing. Technology moat validated by growth.

I think it won't be long after that for investors to re-rate--potentially quite

dramatically--the company's stock.

## QUICK FACTS

Trading Symbols:	AT
Share Price Today:	\$1.80
Shares Outstanding:	41 million
Market Capitalization:	\$73.8 million
Net Debt:	\$14 million
Enterprise Value:	\$87.8 million
2018 EBITDA	\$2.8 million
Price/2018 EBITDA	28.5x
2019 EBITDA Estimate	\$8 million
Price 2019 EBITDA	11x

## POSITIVES

- Programmatic ad business is the fastest growing form of digital advertising
- Acuity's quarterly results have turned the corner and are showing solid growth
- Recent deals have been the largest campaigns in company's history
- Connected television market is developing and will be Big Growth Driver in years to come

## NEGATIVES

- The ad business is in constant flux, and it's easy to be left behind by technology changes
- AdTech is difficult to understand and therefore not easy for an investor to evaluate and value
- Most of Acuity's revenue comes from campaigns rather than more profitable software licensing
- Small cash position makes them vulnerable to another glitch in the business

## BACKGROUND

Acuity Ads develops and markets a platform for online advertising.

Acuity helps marketers make smarter decisions. A marketer wants to make the most of their ad budget. Acuity helps them do that.

The platform enables companies to place online advertisements in front of the right consumers at the right time.

The ad business is all about the return on investment (ROI). If Acuity can show marketers that they can deliver the best returns, clients will flock to them.

But the minute your clients see their returns start to fade, they'll look for another platform and revenue will fall precipitously and fast.

Success is all about the technology. Acuity has a platform they've been building over the last 10 years. They've added to it with 4 acquisitions.

It uses AI--Artificial Intelligence--and machine learning to find the best ad placements and to pay the right price for them. It monitors the success of the ad campaigns and can give the advertiser insights into its success.

Q4 18 numbers showed that the platform is delivering the goods; revenue grew over 100% year over year (YoY).

	Three months ended	
	December 31, 2018	December 31, 2017
Revenue	\$32,936,353	\$15,143,262
Media costs	(16,393,242)	(7,407,499)
Revenue less media costs	16,543,111	7,735,763
Revenue less media costs margin	50%	51%

*Source: AcuityAds Fourth Quarter MD&A*

That looks like it will continue into Q1 19. The company said "We are continuing to see substantial growth into the first quarter of 2019 with both larger and longer-term contracts".

Now I want to be VERY clear here--Acuity has never shown sequential,

quarter-over-quarter (QoQ) from Q4 to Q1. And I don't really expect Q0Q growth this year--BUT I am expecting that drop to be much much smaller than in the past, and possibly show sequential growth. Management is CLEARLY expecting a great quarter--this came across both in my meeting with them in their office and in feedback I've had from other meetings they've had with people in my network.

## THE ONLINE ADVERTISING BUSINESS

Acuity plays in a segment of the digital advertising space called programmatic advertising.

Digital advertising makes up almost half of the overall advertising spend right now. Of that total \$85 billion is made up of programmatic advertising.

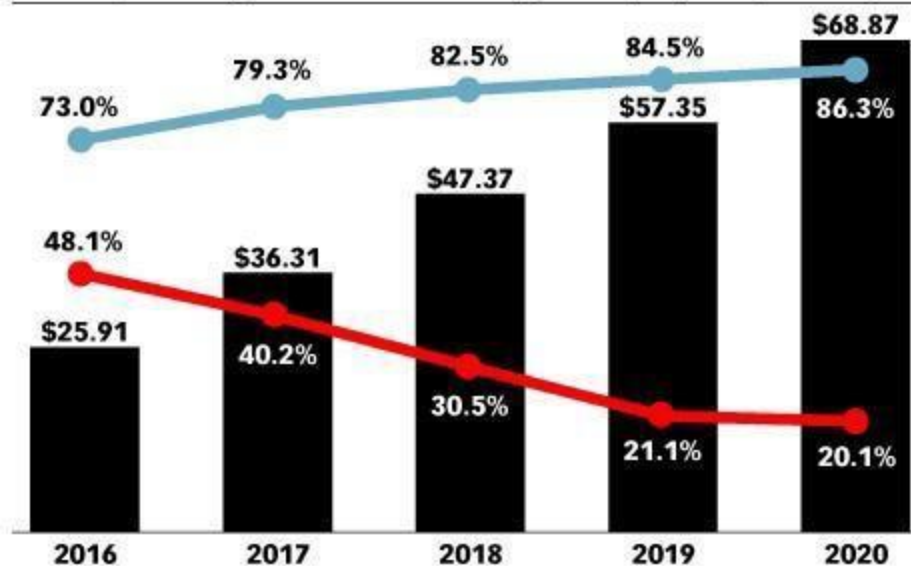


Source: AcuityAds Investor Presentation

The programmatic advertising spend is growing faster than any other segment. In the United States, which typically leads the rest of the world in advertising, programmatic advertising already makes up over 80% of ad spend.

## US Programmatic Digital Display Ad Spending, 2016-2020

billions, % change and % of total digital display ad spending\*



■ Programmatic digital display ad spending  
 ■ % change ■ % of total digital display ad spending\*

Note: digital display ads transacted via an API, including everything from publisher-erected APIs to more standardized RTB technology; includes native ads and ads on social networks like Facebook and Twitter; \*includes advertising that appears on desktop/laptop computers, mobile phones, tablets and other internet-connected devices

Source: eMarketer, Oct 2018

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www.eMarketer.com

In their recent investor presentation, The Trade Desk had a slide saying “~100% will eventually be programmatic”.

Most programmatic advertising technology uses a process called real-time bidding (RTB). RTB is an online auction that takes place in the milliseconds it takes to load a webpage or access an app. RTB makes up about \$30 billion of ad spend right now, but it is growing quickly.



## The march to 1 trillion

### Digital and programmatic vs total advertising



Source: IDC Total Advertising

theTradeDesk Investor Day

Below is a schematic of the process. On the left side you have content providers. They could be web pages, apps, a social network, anyone with space to sell. They are called the supply side. The biggest supply side platform or ad exchanges come from Google.



Source: AcuityAds Investor Presentation

On the right are the advertisers; companies interested in placing the ad. In the middle is the exchange. The exchange manages what ad space is up for grabs and the bidding that determines who gets to place their



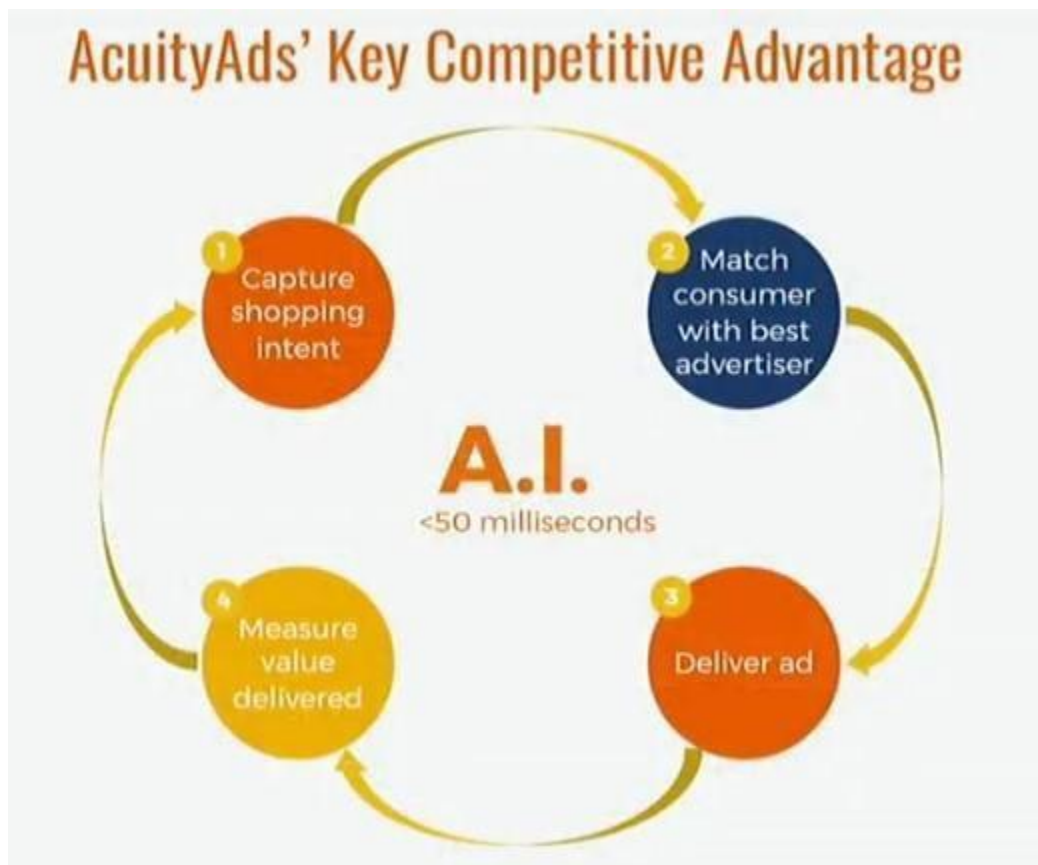
advertisement in it.

Acuity stands between the advertiser and the ad exchange. Their role is to help the advertisers deliver ads to the right consumers. The platform is called a demand-side advertising platform.

Acuity brings two things to the table:

1. They allow the transaction to happen by having a seat on the ad exchange and having the technology to compete in the bidding process
2. They use AI system to make the decision of where to place the ad out of the 10's of millions of possible placements

The process of placing an ad is illustrated below. Acuity's technology platform identifies the consumer, matches them up with the best advertiser, delivers the ad and then measures how effective it was.



Source: AcuityAds Investor Presentation

Acuity's clients are the advertisers. They deal with a host of leading brand names.



Source: AcuityAds Investor Presentation

## Two Sources of Revenue

Acuity receives revenue by managing campaigns for clients (Full Serve) and by selling its software (Self-Serve).



*Source: AcuityAds Investor Presentation*

On the full-serve side, the barrier entry is small. All you have to do is license technology from Acuity or a competitor and you are in business.

Self serve has higher barrier to entry – companies have to invest hundreds of millions into the technology. Acuity thinks the future is here.

Right now, revenue is still weighted to full serve. But growth of the self-serve business in Q4 18 did appear to be picking up.

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Managed Services	\$ 27,726,744	\$ 12,887,288	\$ 8,322,814	\$ 5,470,789
Self-Service	\$ 5,209,610	\$ 4,410,882	\$ 3,642,106	\$ 2,565,784
	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Managed Services	\$ 12,160,166	\$10,050,099	\$ 8,322,814	\$ 5,219,015
Self-Service	\$ 2,983,096	\$ 4,473,550	\$ 3,642,106	\$ 6,307,752

*Source: AcuityAds MD&A Filings*

Managed Services is growing because Acuity is growing their customer base and growing spend. The average spend per client was \$45,000 in 2011 but has risen to \$175,000 in 2017.

Acuity recently announced a \$2 million contract with a consumer packaged goods (CPG) company and a \$7 million contract with a financial services company to run their campaigns.

Management wants to grow the self-serve business because its technology intensity means high operating margins. For every dollar of revenue 35 cents can drop to the bottom line.

So they're making a concerted push to make their software more user-friendly. They want to make using the software to drive an ad-campaign something that doesn't require expert assistance.

## THE OMNI-CHANNEL SOLUTION

The other piece to growing both sides of the business is a solution that can reach the consumer regardless of the medium. This is known as an Omni-Channel Solution.

In an Omni-Channel Solution the basic process is done regardless of the content: video, mobile, social and online display advertising campaigns. Acuity has what they call an omni-channel solution, which means they can deliver ads to pretty much any environment.



*Source: AcuityAds Investor Presentation*

## **CONNECTED TV-- THE NEXT BIG REVENUE DRIVER??**

One upcoming growth opportunity is going to be television. Television has always been a traditional advertising medium. Advertisers buy ad space that is shown to every viewer.

But TV is about to turn to digital in the next few years. The advent of smart

televisions, increasingly online content from big networks (like NBC, Fox, CBS, ABC, discovery, ESPN and AME) and over the top providers like YouTube (as well as Netflix and Amazon Prime once they make the move to advertising) is creating a brand new market--targeted television advertising.

That means programmatic advertising. When you switch the channel or change to a different service, advertisements will be tailored to you. The addressable market for the services Acuity provides is about to (late fall 2019??) get much bigger.

The Trade Desk was particularly bullish of the Connected TV market in their recent investor day presentation. They saw a 6x increase in their CTV inventory availability in 2018 over 2017.

## ACQUISITIONS

Acuity has made four acquisitions over the last few years and expect them to make more.

Venture capitalists were enamoured with the ad space early in the decade. They were attracted by the high growth. But many of those deals have not worked out as they expected, as Google and Facebook have formed a duopoly over much of the industry.

The landscape is ripe for a company like Acuity to pick up cheap acquisitions. Acuity structures their acquisitions with the bulk of the price being earnings pay-outs.

The acquisition last year of Adman Media is an example. Acuity was able to buy Adman for \$2 million, putting the bulk of the purchase in a contingency based on performance.

Adman's strength is a supply side platform for publishers. In particular their solution allows for the distribution of video content.

A second acquisition, and one that catapulted Acuity into the video space, was Visible Measures.



Acuity acquired Visible Measures in March 2017 for \$10 million. Visible Measures had raised over \$70 million in the prior years from venture capitalists. So Acuity paid a fraction of the money spent to develop the platform.

The acquisition was made for Visible Measures video analytics technology. The platform allows for better understanding of video views, which boils down to better estimation of the advertising ROI.

This is more convenient and allows advertiser to have that one-on-one conversation with the consumer.

## **RISK--User Tracking Headwinds**

Acuity and all the other providers in the ad space rely on tracking and user data to build their profiles and accurately target users. Therefore access to user data is by far the biggest risk to the industry as a whole.

Existing “do not track” browser settings are of limited value. They send messages to publishers letting them know about the user settings but there is nothing stopping a publisher from ignoring these warnings.

So few publishers honor the setting that Apple recently removed its do not track tool from Safari.

But there is always the possibility that ‘do not track’ lobbying drives more teeth around the option in the future. People don’t love being tracked. And governments are constantly bringing this up as a topic of debate. Recent news with Facebook doesn’t help matters.

Also there have been rumors that Google is going to change cookie tracking settings in Chrome. The rumors have ranged from the extreme case – where 3<sup>rd</sup> party cookies are not allowed, to less extreme versions where there are just limits put on what can and can’t be tracked. Apple has already made changes to acceptance of tracking cookies in Safari.

The ad stocks took a tumble on the first rumors of Google changes. But they also quickly recovered as analysts chimed in saying that it was



probably not in Google's best interest (since they are a large beneficiary of ad revenue) to go too far.

More generally though, changes could reduce digital ad values and make targeting more difficult. And the winds of change are in favor or less tracking not more. So this remains a headwind for sure.

## FINANCES / VALUATION

To understand the valuation, in this case it's helpful to understand where it came from.

Acuity was a high-flying stock as recently as 2017 when it traded at nearly \$5 a share. But in September 2017 the stock plummeted after Acuity announced that revenue would be lower than previous guidance.

They had found multiple clients cheating the system. The clients were buying banner ads and inserting videos. Banner ads trade for a fraction of the price of video ads.

Acuity had to let these customers go. With the customers went revenue growth.

## WHAT HAPPENED TO THE STOCK?

Revenue in subsequent quarters lagged. While YoY growth in the first half of 2017 had been 100%+, it fell to 60% in the third quarter and went negative in Q4.

In Q1 18 Acuity had \$8 million of revenue down from \$11.5 million the year earlier. Cash was down to \$2.5 million and operations had lost over \$1 million in the quarter.

The company was forced to raise cash at distressed terms of \$1 per share. Fortunately, management took the gamble that they could turn it around quickly and limited the raise to \$4.6 million.

The stock bottomed out at a little more than 60c in May 2018. Q2 18 continued to see revenue declines...but by Q3 18 things were

turning around. Third quarter revenue rose to \$17.3 million from \$14.5 million the previous year.

When Q4 results were pre-announced at the end of January 2019, Acuity was demonstrating a full recovery. Revenue of \$32.5 million was up from \$15 million in Q4 17.



This is where we sit right now. The business has recovered. But the stock is MUCH lower. The dilution is not nearly enough to justify this being a \$1.80 stock instead of a \$5 stock.

At the current price the stock has a market capitalization of only \$73.8 million. The company has taken on some debt, which it used for acquisitions. Total debt is \$22 million. There is a \$7 million term loan with a group of private lenders. They also have a \$20 million line of credit with Silicon Valley Bank, of which they have \$13.6 million outstanding.

There is \$8 million of cash on hand.

## THE TRADE DESK--TTD-NASD--A COMPARISON

Trade Desk is the Big Dog of the industry but apart from their size they have a similar business to what Acuity has.

The Trade Desk generates its revenue from the self-serve business. They

offer their platform to other demand-side providers.

Probably the most impressive metric for The Trade Desk is that they delivered 34% EBITDA margins in 2018.

Can Acuity attain those type of margins? Maybe, but they would need to grow the self-serve business. The Trade Desk has much higher gross margins than Acuity because they are essentially a SaaS provider.

	TTD		AT	
2018 Revenue	\$	477,294,000	\$	70,236,016
COGS	\$	114,098,000	\$	36,377,970
Gross Margins		76%		48%

Source: AcuityAds SEDAR Filings, TTD SEC Filings

Acuity is working on their self-serve platform. They see how much growth can be achieved from the segment. But we'll have to wait to see how successful they are.

What's most notable when comparing The Trade Desk and Acuity is the difference in valuation. The Trade Desk trades at a massive premium to what Acuity does.

	TTD		AT	
2018 Revenue	\$	477,294,000	\$	70,236,016
Shares Outstanding	\$	43,862,000	\$	41,000,000
Price	\$	198.00	\$	1.55
Market Cap	\$	8,684,676,000	\$	63,550,000
Cash	\$	207,232,000	\$	8,014,668
Debt	\$	-	\$	22,920,195
EV	\$	8,477,444,000	\$	78,455,527
EV/Sales		17.8		1.1

Source: AcuityAds SEDAR Filings, TTD SEC Filings

I understand there are a number of reasons The Trade Desk should be valued higher than Acuity.

1. It's a platform company with recurring revenues
2. It's the industry leader
3. It's growing faster

All fair. No question there should be a premium valuation. But 17x sales vs. 1x sales? That gap should be much closer--to the benefit of Acuity.

## MANAGEMENT

Tal Hayek started working in the ad space in 2004 with a company called *Incentaclick*.

Incentaclick was sold to *Cyberplex* for \$3.5 million. Hayek stayed with the company and Incentaclick grew revenues from \$7 million of revenue to \$140 million in the following two years. (That's pretty good!)

Hayek went on to start AcuityAds in 2009.

Acuity was the brainchild of Hayek and Dr. Nathan Mekuz. Mekuz has a PhD in AI. Hayek and Mekuz toyed with the idea of integrating AI into a trading platform for digital ads.

What they discussed was the precursor to programmatic advertising. It turned out to be a well-timed decision. In the following years the digital advertising space would open up for competition. The advent of RTB brought a host of competitors to the space and opened a path for Acuity to grow rapidly.

Since then they've built Acuity into a company processing 60 billion bid requests and with over 300 clients.

Both Hayek and Mekuz remain with the company today. Hayek is the CEO and Mekuz has the role of Chief Technology Officer and remains responsible for guiding the advancements of the AI engine.

Insiders at Acuity own 53% of the outstanding shares.

Hayek owns 3.8 million shares. Mekuz owns 3.4 million shares. Joe Ontman, who is Chief Revenue Officer, owns 3.3 million shares. Rachel Kapcan has 3.3 million shares. Sheldon Pollack, who is Chairman, owns

1.6 million shares.

There is a lot of skin in the game here.

## WHAT THE ANALYSTS SAY

### FIRM

### TARGET

Haywood

\$2.50

## Stock Chart



## CONCLUSION

When Acuity stock got clobbered in 2017 it was because investors lost faith in the growth story. The company tried to explain. But investors are always going to assume the worst - shoot first, ask questions later.

It doesn't help that the ad business is not easy to understand.

The rapid growth of the last few quarters tells investors that not only is there nothing wrong with the business or with Acuity's product--it works very well! They are now regularly getting multi-million dollar campaigns. The only reason for the big revenue increases in Q3 and Q4 is that customers are getting great ROI on their ads and are coming back for more.

So it's a simple story. The progress is only in the stock a bit. The company is doing what it can to get the story out. Management is silently screaming that Q1 will be excellent to anyone they meet.

Because of the 2017 downdraft, this is a Show-Me story. But they're showing me and **I now own 40,000 shares at \$1.80 average cost.**

This is not a recession proof growth industry like Strata Skin--if the economy falters, so will the business and the stock. With such a small float, it's likely to have an erratic chart on the way up. I don't do well with those!!! So this will be more of a "cowboy" chart than SSKN is likely to be.

But the industry is rapidly moving in their direction, and CEO Tal Hayek and his team are executing very well. This makes it A Top Pick; maybe The Top Pick as it has tight share structure, rapidly growing revenue and doesn't need money.

Keith