Magnite deep dive (9th Feb 2021)

Background
- Leading independent supply-side platform (SSP) for programmatic advertising
  - Their customers are publishers, who have advertising space to sell to advertisers
  - Ads are targeted to the audience based on demographics, location, or other factors
- Enable advertising on the desktop, mobile, audio and video, with major new focus on Connected TV (TV on demand), as opposed to traditional linear TV
- Formed in 2020 from the merger of **Rubicon Project** (founded in 2007 and brought deep SSP capability) and **Telaria** (founded in 2005 and brought CTV experience)

Tailwinds
- TV ad spending suppressed in 2020, but expected to return as the pandemic eases, and the increased value of targeted advertising through CTV becomes more widespread
- Lack of live sports during the pandemic has impacted paid linear TV services, pushing consumers towards 'cord cutting' and increased adoption of CTV. Many CTV solutions are ad-supported, e.g. **Hulu**, **Roku**, **YouTube**
- As live sports comes back, increasingly this is being streamed by CTV, e.g. **fuboTV**

Leadership
- Rubicon Project had a 3.5 star Glassdoor rating, and CEO Michael Barrett had an 87% approval rating (acceptable but certainly not leading metrics)
- 5% insider ownership is somewhat low for a still relatively young company
- CEO sold 13% of his holding ($705k) in 2020 (but not necessarily a major red flag)

Total Addressable Market (TAM)
- In 2020, CTV accounted for 29% of TV viewing but only captured 3% of the TV ad budget
- Current ad spend on CTV is $8B and forecasted to grow to $18B by 2024. Further increases in TAM are anticipated as ad spend grows in line with continued CTV adoption
- Recent acquisition of a key competitor **SpotX** broadens their customer base, and creates new capabilities for programmatic advertising on live sports and live news
- Recent launch of Demand Manager, which creates a new revenue stream and allows publishers to more easily organise ad auctions (Q3 2020 had 187 demand manager customers, up from 172 in prior quarter)

Customers
- Exclusive contract with **Disney**'s Hulu to serve the streaming platform's CTV ad inventory has cemented Magnite's SSP leadership
- Integrated with most major demand-side platforms (DSPs), including **The Trade Desk**, **Adform** and **Media Math**
- Allows advertisers to reach audiences on multiple CTV platforms including **Roku** TV, **Amazon** Firestick, **Apple** TV, and **Google** Chromecast

Network Effects
- Integration with multiple DSPs allow publishers to sell to more advertisers, increasing the number of bidders in an auction, and maximising the revenue received for the ad space
- Consumers will receive content at lower cost (often free) and in exchange will be shown ads that will be more relevant, improving sales revenues for advertisers, thus increasing ad spend
- Collaboration with leading DSP **The Trade Desk**, to implement Unified ID 2.0, a more transparent and private way to manage identity that does not rely on 3rd-party cookies

Competitors
- Magnite is the largest independent SSP, **SpotX** acquisition has increased its market share
- Largest SSP is **Google**. Also competing against **Amazon** (Firestick) and **Comcast**. But these platforms own their content, and there are perceptions of conflicts of interest, causing publishers and advertisers to prefer independent platforms
- Other independent SSPs include **AppNexus** and **Pubmatic**

Financials
- $7B market cap, leading DSP **The Trade Desk** is valued at $40B, suggesting room to grow
- Q3 2020 YoY revenue growth of just 12%. 20x price to sales ratio is a concern, not excessive for an early-stage company, but high considering growth
- Gross margin dropped from 83% (2014) to 63% (2019), albeit the business is materially different
- In January, Truist downgraded Magnite from Buy to Hold, citing valuation concerns and potential headwind of continued lower growth in the second half of 2021
- Multiple class action lawsuits claiming securities fraud related to the 2020 merger (however these can be common when there is significant movement in a stock price)