

global investor by Jean Pierre Verster

Stocks for the metaverse



Judging by investors' excitement, the virtual world of the metaverse might become a reality sooner than we think

The recent Facebook Connect 2021 virtual conference started with a slick 77-minute keynote video that is worth watching. In it, Mark Zuckerberg sets out his vision for the metaverse. His speech culminates in the announcement that the holding company of Facebook, WhatsApp, Instagram and Messenger will henceforth be known as Meta.

The virtual reality (VR) hardware subsidiary, Oculus, will be absorbed into an enlarged Reality Labs division, elevating the importance the company is assigning to the metaverse, or immersive internet.

The two foundational pillars of the metaverse are, broadly speaking, immersive 3D graphics and hardware that allow you to effortlessly engage with this virtual world.

Meta will be spending tens of billions of dollars in the coming years on tools that creators will use to build the virtual world and on developing high-end VR headsets that are reasonably affordable and comfortable to wear.

Let's look at some other companies that might also play a leading role in the development of the metaverse:

Roblox

This platform operates an online 3D

gaming world with the same name, and draws more than 200-million monthly players globally. Logging onto Roblox via a VR headset is probably the closest you can get to experiencing the metaverse today. Half of Roblox's users are younger than 13, and the platform has its own virtual currency, Robux.

Due to its millions of young users, Roblox has an emphasis on safety and content moderation. During Covid lockdowns many children used the platform to stay in touch with their friends and even to host their birthday parties.

The platform recently started hosting virtual events like the world's largest dance music festival, Electric Daisy Carnival, which was held simultaneously in Las Vegas and in the Roblox metaverse.

Roblox listed in March this year. It has a current market cap of almost \$50bn and annualised revenue of \$2.5bn (growing strongly), but it's still loss making. If the metaverse takes off, though, so will the shares.

Nvidia

For humans to interface seamlessly with a virtual world, a step change in computing power is required. Physical gestures need to be "translated" into virtual equivalents (with the help of multiple sensors), and 3D graphics have to be rendered so realistically that our brains are tricked into believing that the virtual world is real. The computational requirements of the metaverse will lead to an explosion in the use of graphics processing units (GPUs). Nvidia invented the GPU in 1999 and dominates the market, reflected in its \$640bn market cap.

The company intends acquiring Arm Holdings, the leading designer of central processing units, from SoftBank for more than \$50bn. Due to competition concerns, however, regulatory approval for the acquisition has been dragging on for

more than a year now.

Even if the deal is blocked, Nvidia is well placed for a growing stream of profits (at a net profit margin of more than 25%), thanks to its technological lead in the GPU market.

Unity Software

The company's eponymous software platform is used to create 3D video games and real-time virtual simulations. Unity estimates that 65% of the top 1,000 mobile games available today were made with its software. It competes with Unreal Engine (owned by Epic Games, in which Tencent has a 40% shareholding) in gaming, and with AutoCad (owned by Autodesk) in real-world simulations such as architectural design.

The metaverse will probably gravitate towards interoperability between virtual worlds created on different platforms, cementing Unity's key role.

Unity listed in September 2020, has a current market cap of roughly \$40bn and annualised revenue of \$1bn, but is still loss making. If Unity can keep on growing its revenue at more than 40% year on year, however, it will grow into its optimistic valuation.

Matterport

This spatial data company uses artificial intelligence to create a virtual 3D model of any physical space, simply by using a camera.

Even novices can create an immersive 3D model – it's as easy as downloading the Matterport app and using your smartphone to take a video clip of the space you want to digitise.

The real estate sector has been an early adopter, with many online property listings now offering virtual 3D walkthroughs.

Matterport already has a vast database of more than 5-million digitised spaces globally and is forging partnerships with those who might want to create replicas of real places in the metaverse. At a market cap approaching \$6bn, Matterport is smaller than the other companies mentioned here. It listed in July 2021 and has annualised revenue of about \$120m, but is also still loss making.

Still, judging by investors' excitement, the virtual world of the metaverse might become a reality sooner than we think.

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