Metaverse Stocks
And Why You Can’t Ignore Them

WHAT STREETWISE INVESTORS NEED TO KNOW

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What is the Metaverse and Why it Matters

There’s a new buzzword in town and it is metaverse. The problem for Wall Street and investors is that it’s hard to pin down, exactly, what the metaverse is. In a nutshell, it is the scope of devices, software, and applications that make up the Internet but there is something more to it. The metaverse, ultimately, is the evolution of the Internet and how we will use it in the future. For many, that future means persistent digital worlds that users can enter and interact with using an avatar.

What makes metaverse so hard to define is the fact that what it is changing. In the old days, the Metaverse or world within the Internet was nothing more than chat rooms filled with people using catchy handles. Today, the metaverse includes AI, 3-D imaging, Virtual Reality, and an avenue for businesses to connect with their clients and make sales.

Why the metaverse matters is because this is the future of technology. The end results are yet to be seen but we can confidently say the growth metaverse will affect everything we do with the Internet. Imagine, if you will, a world in which avatars and virtual cities are used to conduct business. In this world, users may go to work, shop at a store, and even use real money (or possibly cryptocurrency, who knows?) to order a pizza for delivery in the real world. The possibilities are endless and we’ve only just begun to explore them.

The most obvious examples of the metaverse are in gaming. Games like World of Warcraft exist in a persistent state where users can come and go, interact with each other, and even engage in commerce. Players can form teams, alliances, and set up group events as well. Other examples include Fortnite which includes in-universe digital experiences like concerts and museum exhibits which raises an obvious point. The Metaverse is an opportunity not only for platform and technology providers but for businesses of all varieties. In fact, the success of the technology providers will go hand in hand with the success of 3rd-party businesses because without that, there will be no revenue or profits.

The biggest limitation of the metaverse now is interoperability and that is true for the Internet as well. We’ll know we are truly at the dawn of a new age when users are able to travel and interface seamlessly between platforms and operating systems as if they didn’t exist. Until then we’ll be limited to using the platforms that are available and the number of those is growing.
It’s hard to quantify the value of the Metaverse as it is now because is so hard to quantify what, exactly, the metaverse is and which companies are a part of it. What we do know is that leading metaverse pure-plays like Roblox are pulling in several billion in annual revenues and growing at high double-digit and even triple-digit rates.

The best estimates have the total metaverse worth about $44.70 billion in 2020 with growth to $596.47 billion by 2027. That’s over 1200% growth in the next five years alone and the outlook for future growth is even more robust.

The outlook for the metaverse is murky in terms of what, who, and when the it will really take off but the projections for total value are in the trillions. Tech investors like Cathie Wood, gaming CEO’s like Tim Sweeney, and investment firms like Grayscale (heavy into cryptocurrency) think the metaverse will grow to over $1 trillion in annual revenues by the end of the decade and could reach the “trillions” or “multi-trillion” dollar levels before it’s all said and done.

“The market opportunity for bringing the Metaverse to life may be worth over $1 trillion in annual revenue and may compete with Web 2.0 companies worth ~$15 trillion in market value today,” said Grayscale in a report on the Metaverse.

And the metaverse companies are investing in own growth and in very unusual ways. Two very noteworthy transactions for digital real estate took place at the end of 2021 setting back-to-back records for the industry. The second and current record holder was a purchase of space within The Sandbox by Republic Realm from Atari.

Republic Real is a metaverse real estate development company that purchased a sizeable chunk of property in The Sandbox. The Sandbox is a Metaverse platform that allows users to build up and monetize a Metaverse experience or just have fun, spending money on in-game purchases.

Republic Realm owns about 2,500 digital plots across 20 platforms and will usually sit on the property until it appreciates or hire a design/development team to build it out. Appreciation of the properties depends heavily on the number of users on the respective platform, and what kind of improvements are done to it. Projects include virtual malls and residences that are then sold or turned into virtual businesses that can be leased to other operators. Basically, it’s digital Monopoly with real money and people are playing the game. One of the highest-profile players in The Sandbox is Snoop Dogg, owner of a virtual mansion where raging parties are held.
Roblox Is Leading The Metaverse Now

Roblox (NYSE: RBLX) isn’t the biggest, flashiest, or wealthiest of the companies engaged in the metaverse but it is the highest-profile pure-play publicly traded today. Where others are pursuing metaverse related technology, or branching out into the metaverse, Roblox is completely focused on it and making big steps as well. The company operates as a gaming platform that allows developers to create games and users to play them. The key to the platform is its 3-D visualization of real-world scenarios, the ease of use both for players and developers, avatar interoperability between games, and the push into peripheral experiences and real-world applications.

The platform is currently focused on the younger generations but there are two key factors to be aware of. The first is that Roblox is now actively working to age-up its clientele with games and experiences targeted at more mature audiences. The second is that the efforts to age-up the clientele mesh perfectly with the natural aging of the existing clientele so we can expect to see brand loyalty support revenue growth long into the future.

If you question Roblox’s impact on the younger generations and the power of brands being developed on it all you have to do is go to the toy section of any major retailer and see what’s there. What we see in our stores are numerous brands under the Roblox umbrella in every aisle and product category. Roblox is not only a metaverse play but a budding retail brand as well.

So, what can you do on Roblox besides play games? Among the many forays are things such as listening parties and crossover events with brands that exist in the real world. Listening parties like the one hosted by Grammy-nominated recording artist Poppy are a way for businesses, brands, and individuals to interact with their clients and fans that goes beyond what is currently available. The event featured a debut of her latest album and interactive visual experiences to go along with it which doesn’t sound like much but this is still a budding application.
Facebook Is Doing The Metaverse, Shouldn’t You

You know there is money to be made with an Internet application if Mark Zuckerberg and Facebook (NASDAQ: FB) get interested in it. Facebook is so interested it even renamed itself Meta in a timely move that helped turn attention away from some damning whistleblower testimony. The change, for whatever reason, is meant to establish the company as a developer of social technology rather than a social media platform but we’re not impressed. Google changed it’s name to Alphabet but everyone still calls it Google. The threat to free-press and morality aside, Facebook’s move is a clear indication the metaverse is the future of the Internet regardless of what the end results may be.

Basically, Facebook is aiming to create 3-D spaces on the Internet in which its users can interact. These spaces will be used for socializing, education, collaboration, and work. And Facebook is not limiting itself to a single avenue, either, hammering down on virtual reality, augmented reality, and smart devices as part of a holistic approach to the sphere. In their view, the metaverse isn’t something to be made or controlled by any one organization but the sum total of technological advances that will someday work seamlessly together.

Among the first advances made by the company is an investment of $150 million not into new technology but into the use of the technology that is already out there. The investment is intended to raise awareness as well as provide training and resources for users, developers, and creators. Another project is the Horizon Workrooms that bring teams together in 3-D spaces using whatever technology is at hand. Users can plug in with VR or dial into the room on a desktop. Whiteboards and other peripherals can also be used to enhance the collaborative experience.
While Roblox and Facebook, ahem Meta, are the most visible metaverse stocks there are quite a few of them out there. The first that springs to mind is Match Group (NASDAQ: MTCH) which is the parent company of Tinder. If the metaverse is about bringing people together to share experiences it makes sense dating sites would be right at the center of things. Jefferies turned bullish on this stock at the end of 2021 forecasting 25% upside while citing “numerous drivers for the stock over the next 12-months” including product updates and enhanced integration of the company’s platforms.

Take-Two Interactive (NASDAQ:TTWO) is another top choice and representative of the broader gaming industry. Gaming is at the heart of the metaverse and will be among the most prolific of applications moving forward. Evidence of this can be found in Microsoft’s (NASDAQ: MSFT) purchase of Activision Blizzard (NASDAQ: ATVI). Microsoft, a foundational company in regards to tech, the Internet, and the cloud, needed a quick boost to their gaming and metaverse portfolio and they got one. The deal, worth about $69 billion, would make Microsoft the 3rd largest gaming company on the planet if approved. Even if not approved, this move suggests other gaming companies are about to become part of larger operations in the quest to tap the metaverse.

In many respects, the metaverse is the Internet, the Internet is the metaverse and it is the evolution of the two we are talking about. At the heart of all things digital are microchips and semiconductors and the ones most loved by the gaming industry come from Nvidia (NASDAQ: NVDA). Nvidia’s advanced chips combine AI, graphics, and display capabilities in a way few others can match and are already in high demand. Others, like Ambarella (NASDAQ: AMBA) which specializes in computer vision/AI chips, are also well-positioned to capture the growth of the metaverse.

Taking this a step further, Logitech (NASDAQ: LOGI) is also well-positioned for the metaverse as the manufacturer of digital peripherals. Peripherals include specialty keyboards, microphones, whiteboards, mouses, headsets, augmented reality glasses, and virtual reality headsets... all the items you will need to connect to and use the metaverse.

Bringing the conversation back to games, Unity Software (NYSE: U) owns one of the most powerful 3-D video game engines and its technology is already being used by some of the most popular games around. Its platform provides software solutions to create, run, and monetize interactive, real-time 2D and 3D content for mobile phones, tablets, PCs, consoles, and augmented and virtual reality devices.
Unity is, in fact, engaged in some of the most useful of real-world applications of the metaverse. The company has partnered with Hyundai to create a digital-twin meta-factory that can be used for test runs and optimization of real-world processes. The partnership will also work on AI training and autonomous driving simulations to help forward that technology as well.

Now, since the metaverse is heavily dependent on the Internet lets not forget about the two biggest operators of the Internet. Between them, Google (NASDAQ: GOOG) and Amazon (NASDAQ: AMZN) control the lion’s share of digital business from search to the cloud. The metaverse is all about finding things on the Internet and interacting with them so we can be sure these players will have a big role in its development. Whether or not Amazon takes a leadership role is yet to be seen but we do know the company is one of the world’s largest vendors of the cloud and cloud services which is where and how the metaverse will operate. Alphabet’s CEO Sundar Pichai says the company is doubling down on search and AI in its approach, focusing heavily on the company’s core business of connecting the Internet together.

Now, to get really deep into it, there are also the datacenters themselves and, in this case, the data center REITs to consider. Companies like Equinix (NASDAQ: EQIX) and CoreSite (NYSE: COR) own and operate data centers. They, to one degree or another, offer a wide range of services including space in the cloud, interconnectivity, and security for AI, networks, cloud, media, mobile, financial, healthcare, and gaming, to name a few. The best part about owning the REIT stocks is that they are the infrastructure of the metaverse and will always be in demand. To take it a step further, the data centers pay healthy dividends in the range of 2% to 3% and sometimes higher, and these dividends come with a favorable expectation for dividend growth. Not many tech companies can boast that.
The Only Thing You Really Need to Know About the Metaverse is...

If you have begun to wonder if the metaverse is really a thing or just another buzzword for video games you may be on the right track. We ourselves found the true definition and purpose of the metaverse to be slippery and elusive because all the things that make up the metaverse already exist. The push to create persistent virtual worlds is only the latest evolution of what we all know as the Internet and there is nothing new about that. The goal of interoperability, seamless interaction, and virtual reality akin to what we’ve seen in science fiction movies, has always been the goal.

The reason why you can’t ignore metaverse stocks is that the Internet is the metaverse, the metaverse is the Internet, and the two can not be easily separated. Ultimately, when we talk about the metaverse what we’re talking about is the evolution of the Internet, and gaming stocks are having an increasingly important role.

Investing in “metaverse” stocks because of the word metaverse may get you the results you want but the stocks will come with outsized risk. Sure, Roblox is in the lead now but it’ll only take one disruptive technological advancement to make it obsolete and that doesn’t count simple competition. Players like Facebook, Google, Amazon, and Microsoft will either buy it and improve it or build their own worlds which many are already doing.