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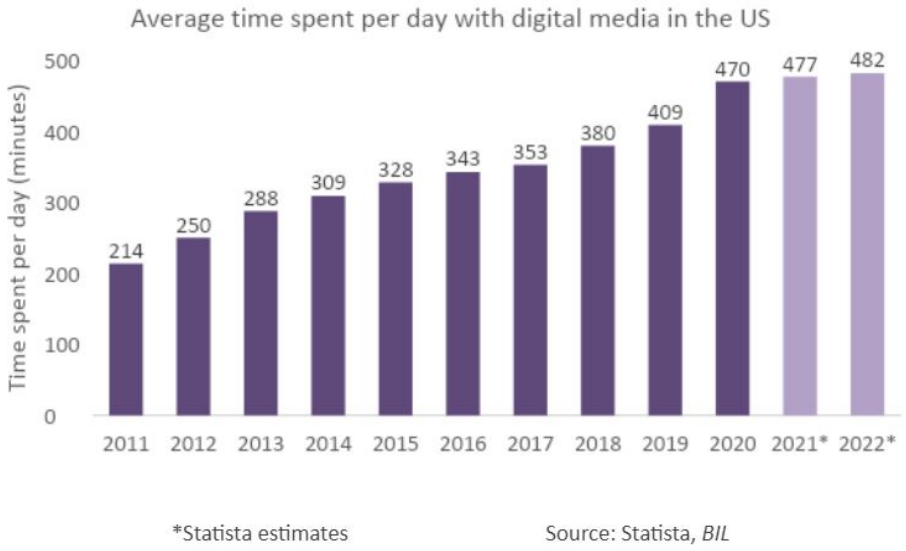
The metaverse: Digitalisation's next frontier?

Beyond our traditional financial and macro analysis, at BIL, we are increasingly focused on longer-term investment themes and the arising opportunities that they may offer our clients.

Digitalisation is undeniably one of the most important secular trends shaping the future. Under the cloud of the Covid-19 pandemic, digitalisation took a great leap forward, leaving us on the brink of a turning point in human history – the point at which we spend more time in the digital world than in the real world. Statista [1] found that in 2020, American adults spent an average of 470 minutes per day using digital media (that's 7 hours 50 minutes – almost half of their waking lives if we account eight hours of sleep). This metric is only projected to rise further as the diffusion of new digital technologies such as the internet-of-things, smart devices, artificial intelligence (AI) and augmented reality (AR), further blur the lines between our physical and digital lives. Beyond this, a new frontier is gaining credence: the metaverse. Touted as the next iteration of the internet, this concept would essentially bring about the convergence of the physical and digital realms.



WHAT IS THE METAVERSE?

The metaverse is a universal computer interface that allows users to live, work and play in alternative virtual worlds. Its name is a portmanteau combining 'meta' meaning 'beyond/after' in Greek, and 'universe'. While nascent versions exist, the technology is far from maturity. Ultimately, in its fullest form, users would wear virtual reality (VR) headsets to enter an alternative reality– one could "go to the office" and interact with colleagues without leaving the sofa. More diluted versions involve acting through 2D avatars on our existing screens or smartphones, or AR glasses that superimpose digital images onto the real world (imagine you could try on an outfit or new hairstyle while looking in your mirror at home). For investors keen to have a preliminary glance at what the metaverse might look like, Steven Spielberg's movie Ready Player One is a good place to begin.

COMPANIES ARE BETTING BIG ON THE METAVERSE

The metaverse, if it catches on, could become a whole alternate economy. Bloomberg calculates that the global revenue opportunity could approach $800bn in 2024 (up from about $500bn in 2020), and already big-name companies are engaging in what looks like a digital land-grab to affirm their presence in this new world.

Facebook (which changed its name to "Meta" in October 2021 to reflect its ambitions in this new realm) has pledged $10bn per year for the next decade to create its own immersive virtual word, while Microsoft recently agreed to buy Activision Blizzard, the video game maker behind franchises such as Call of Duty, for a staggering $68.7bn. Satya Nadella, chair and chief executive of Microsoft said "Gaming is the most dynamic and exciting category in entertainment across all platforms today and will play a key role in the development of metaverse platforms".

Just as people use their clothes to reflect status in the physical world, retailers preempt that they will wish to do the same in the digital world. To capitalise on this, Nike, for example,

recently purchased a virtual shoe company, RTFKT Studios, and trademark applications show its intent to make and sell virtual sneakers and apparel.

If some were baffled by the blistering price rises in non-fungible tokens (NFTs), an understanding of the metaverse may help. NFTs are a new art form for artists, musicians, and creators, representing a unique digital asset or token (a "proof of ownership" on a piece of digital art). Proponents claim that NFTs based on art and collectables will have status as elements in the metaverse. Already, Sotheby's has opened a prime-location gallery within Decentraland, the first virtual world owned by its users. [2]

Even national governments are entering the fold. In 2021, the South Korean government announced the creation of a national metaverse alliance with the goal to build a unified national VR and AR platform.

INVESTMENT IMPLICATIONS

The metaverse has not been built yet and while it may be the world of tomorrow, the technologies that enable it may create opportunities for investors today. The metaverse has several prerequisites:

- Speed is paramount and the latency offered by 5G technology (and laterally 6G) will be essential.
- Blockchain will play a crucial role in ensuring data authenticity and ownership.
- Cloud-based infrastructures are key given that massive amounts of data need to be transmitted wirelessly and stored.
- The Metaverse will need a lot of computing power, making semiconductors crucial (they will largely need to use advanced process nodes which only a handful or chipmakers currently have the ability to produce).
- Hardware - Seamless virtual experiences require advanced hardware, whether it be headsets, sensors or even clothing or cameras that capture movement.
- Cybersecurity – the more digital our lives become, the more vulnerable we are to cyber-attacks.
- Software that has interoperability across platforms.

Whether the metaverse as imagined enters the mainstream or not, what is sure is that soon, even greater proportions of our lives are set to take place in the digital realm whether it be entertainment, gaming, education or financial services... The ever-beating drum of digitalisation will create winners and losers in almost every sector and as such, gaining exposure is not simply about buying IT-related stocks. Assessing every company's ability to innovate and adapt in this space should be integral to the investment-decision making process.

[1]
https://www.statista.com/statistics/262340/daily-time-spent-with-digital-media-according-to-us-c

onsumsers/#:~:text=In%202020%2C%20adults%20spent%20an,five%20and%20a%20half%20hours.

[2] https://decentraland.org/blog/announcements/sotheby-s-opens-a-virtual-gallery-in-decentraland/

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