

DECEMBER 2021

The opportunity —

How to invest in the “metaverse”?

At the end of October, Mark Zuckerberg announced the change of the name of Facebook’s parent company to “Meta”, referring directly to a gigantic project he intends to develop: the metaverse. Other large groups (Nike, Disney, etc.) also seem to be preparing for what could become the next “big thing”.



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“Metaverse” is Wall Street’s new favorite buzzword since Mark Zuckerberg announced he is betting Facebook’s future on it. What is the metaverse about and how to invest in this new concept?

At the end of October, Mark Zuckerberg announced the change of the name of Facebook’s parent company to “Meta”, referring directly to a gigantic project he intends to develop: the metaverse. Other large groups (Nike, Disney, etc.) also seem to be preparing for what could become the next “big thing”.

What is it about? The Metaverse is a contraction of the words “meta” and “universe”. For Zuckerberg, it is the “holy grail of social interaction”. The idea is to generate more immersive virtual experiences while remaining connected to reality. Among the types of experience made possible by this three-dimensional universe: buying (real) clothes in virtual stores and picking them up in the real world, attending a (virtual) concert given by a (real) artist, etc. In this type of experience, virtual 3D and the real world are intrinsically linked. To access them, all you have to do is use a virtual reality headset and/or other technological interfaces.

But the metaverse is also a new dimension in the world of games with projects such as Decentraland where users can earn MANA (Decentraland’s native token), buy land or virtual collectibles, vote on economic and governance projects, or create NFT (non-fungible tokens), giving them real interoperability for the value of their time spent in the game.

For the vast majority of people, the metaverse looks like an enhanced version of virtual reality (VR). But for many specialists, the metaverse could well be the future of the Internet.

Web 3.0

The Internet has always been about connecting people. But over the past three decades, Internet technology has transformed and the way we interact with the web has evolved with it. Three key eras of the internet can be distinguished:

- **Web 1.0** - Netscape connected us to the internet;
- **Web 2.0** - Facebook and other social networks have connected us to online communities;
- **Web 3.0** - The metaverse will connect us in a virtual world now in the hands of the user community (instead of the current internet giants).

As the table below (source: Grayscale) shows, the level of interaction, the mediums used, the organization, the Internet infrastructure and the level of control exercised are changing.

ILLUSTRATIVE KEY FEATURES OF WEB 1.0, 2.0 & 3.0

	Web 1.0	Web 2.0	Web 3.0
Interact	Read	Read-Write	Read-Write-Own
Medium	Static Text	Interactive Content	Virtual Economies
Organization	Companies	Platforms	Networks
Infrastructure	Personal Computers	Cloud & Mobile	Blockchain Cloud
Control	Decentralized	Centralized	Decentralized

The Web 2.0 mobile Internet has changed the way we use and interact on the Web. The Web 3.0 Metaverse has the potential to create an even more profound change.

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The metaverse market opportunity

It is estimated that the revenue generated by virtual games could grow from about \$180 billion in 2020 to about \$400 billion in 2025.

A key dynamic in this trend is the continued evolution of monetization by game developers. Players are increasingly moving away from paid games to free-to-play games, which developers monetize by selling players items, land, etc. to improve their level of play or social status within these virtual worlds.

One of the most important evolutions between Web 2.0 and Web 3.0 is the shift from closed metaverse (i.e. centrally owned and controlled by Web giants) to open cryptographic metaverse (i.e. democratically owned and controlled by users).

In a Web 2.0 world, players cannot monetize their investments and efforts. Game developers do not allow players to trade items with other players and keep these worlds closed so that players cannot transfer their virtual wealth to the real economy.

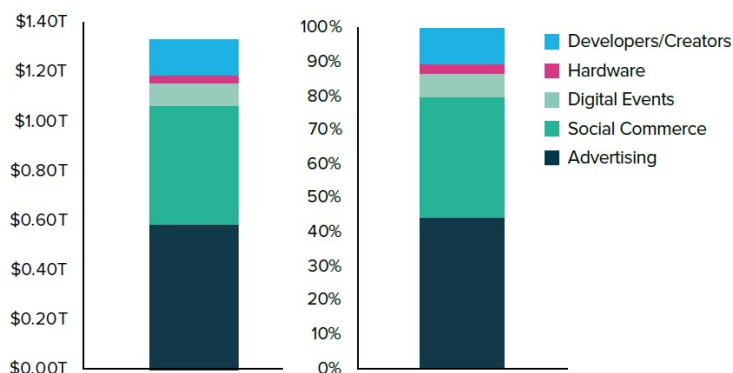
Web 3.0 open crypto metaverse networks solve this problem by eliminating the capital controls imposed on these virtual worlds by Web 2.0 platforms. This new paradigm allows users to own their digital assets like non-fungible tokens (NFTs), trade them with others in-game and transport them to other digital experiences, creating a whole new Internet economy that can be monetized in the real world.

This “creative economy” is known as “Play to Earn”.

Established Web 2.0 companies - such as Facebook - will therefore have to adapt their business models by opening up their ecosystems and giving away some of their competitive advantages.

The investment is probably worth it as the metaverse represents a revenue opportunity of more than a trillion dollars in advertising, social commerce, digital events, hardware, and developer/creator monetization (see chart below - source: Grayscale).

GLOBAL METAVERSE POTENTIAL TOTAL ADDRESSABLE MARKET



The economy of the Web 3.0 metaverse

Early Web 3.0 metaverse universes were generally built on blockchain with a multitude of players contributing to the development of games while allowing these elements to be freely exchanged on the blockchain.

The most well-known examples of commercial activities at the moment are:

- Art galleries, such as Sotheby's, allow owners to display and sell their NFT digital art at auction;
- Companies have established a digital headquarters in the metaverse for their employees to meet and collaborate;
- Digital billboards (advertising) in the metaverse;
- Concert halls in the metaverse where DJs and musicians play music and organize concerts.

These Web 3.0 metaverse worlds are part of an interconnected cryptographic economy in the cloud. Decentralized protocols interact and provide the technical infrastructure for these virtual economies to function in the metaverse.

Capital investment in the sector has recently begun to accelerate. Companies such as Facebook are planning to invest tens of billions of dollars in the Metaverse. But for many experts, this is just the beginning as the whole metaverse concept could very well take another 10 to 15 years to develop.

In a blog post on Medium, Jon Radoff highlighted the metaverse value chain by distinguishing 5 categories:

- Experience:

By dematerializing physical space, distance, and objects, the metaverse will change our online experiences, especially in games, social networks (possibility of socializing through virtual activities), E-sports, online purchases (clothes, real estate, etc.), “live” events around music, sports, etc.

Companies active in this category include Alphabet, Amazon, Disney, Microsoft, Nike, Sea Ltd, Sony, Take-Two, and Tencent.

- Discovery:

We are talking about functionalities that allow users to live experiences on two levels: 1) those that support users who are looking for information about a specific experience (search engines, apps, influencers); 2) marketing messages that do not necessarily correspond to a specific search (notifications, visual ads, etc.). Alphabet, Apple, Facebook (Meta) are exposed to or are going to position themselves on this segment.

- Creator economy:

This category includes all the technological tools that allow content creators to design the experiences that users are looking for. Today, some platforms such as Roblox already allow content

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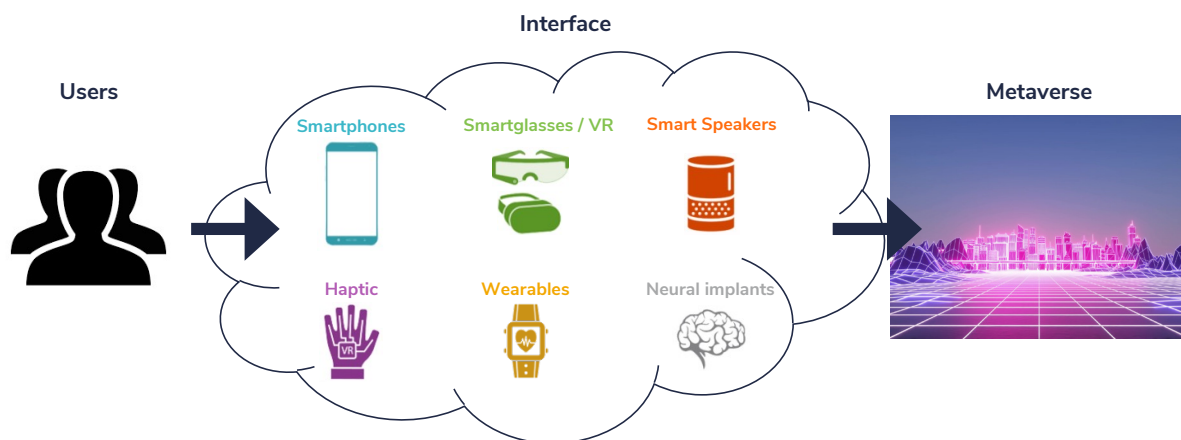
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creation without specific coding knowledge. The metaverse should allow this concept to develop on a much larger scale through the use of specific tools such as geospatial mapping, 3D drawing, NFTs, etc. Listed companies in a relatively good position to play a significant role include Autodesk, Dassault Systèmes, Matterport, Facebook (Meta Platforms), Nintendo, Roblox, or Unity Software.

- Human interface:

This refers to the tools and hardware (software and hardware) that enable the link between the virtual world and the real world and establish connections between users. Think for example of 3D glasses, “smart” audio equipment, connected watches, neurological implants, smartphone applications, haptic devices, etc. This category includes large technology companies such as Amazon, Apple and Alphabet, Microsoft but also Meta Platforms (Facebook).



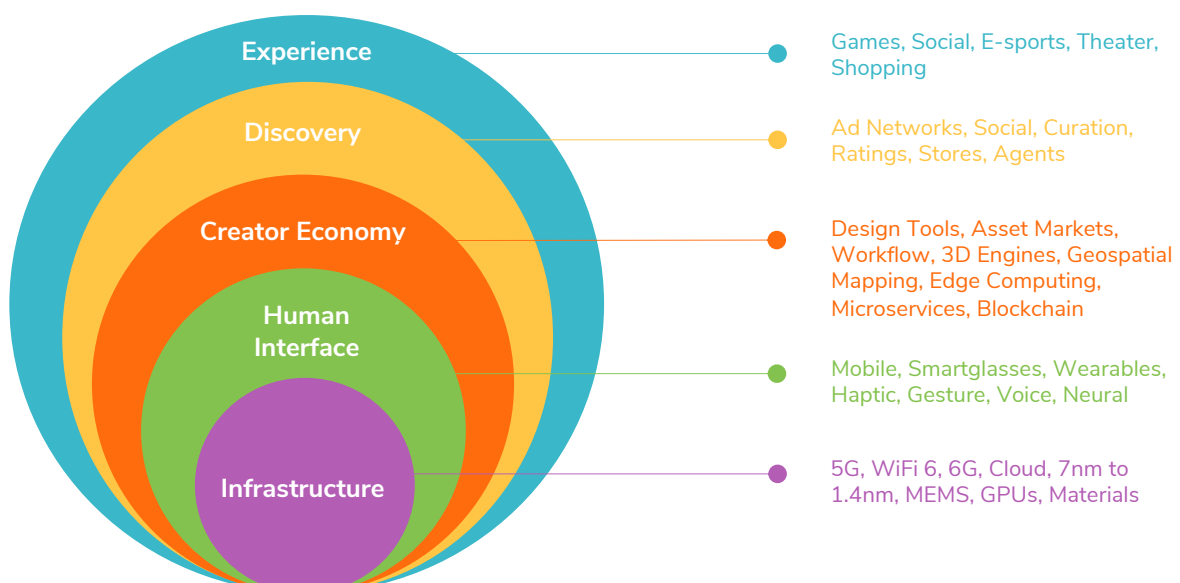
- Infrastructure:

This category is relatively broad and includes semiconductors, 5G / Wifi, cloud as well as data centers.

Semiconductor companies such as AMD, Nvidia, Qualcomm, and TSMC are well positioned in this area. But there are also more niche players such as Digital Reality, Equinix, and Global X Cybersecurity.

The value chain

The Five layers of the Metaverse:



Source: medium.com

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Conclusion

As is often the case in thematic investing, the selection of securities involves a blend of large caps stocks (whose exposure to the theme is likely to be diluted by the diversification of their activities) and pure play stocks, which are much more sensitive to the theme but also riskier and more volatile. At Bank Syz, we are

launching a metaverse certificate invested into 25-30 large and mid-caps with exposure to the different categories mentioned in the previous section. This is an investment vehicle with high upside potential but also very high risk.

Experiences	Discovery	Creator Economy	Human Interface	Infrastructure

Source: medium.com

For further information

Banque Syz SA
 Quai des Bergues 1
 CH-1201 Geneva
 Tel +41 58 799 10 00
 Fax +41 58 799 20 00
 syzgroup.com

Charles-Henry Monchau, Chief Investment Officer
 charles-henry.monchau@syzgroup.com