



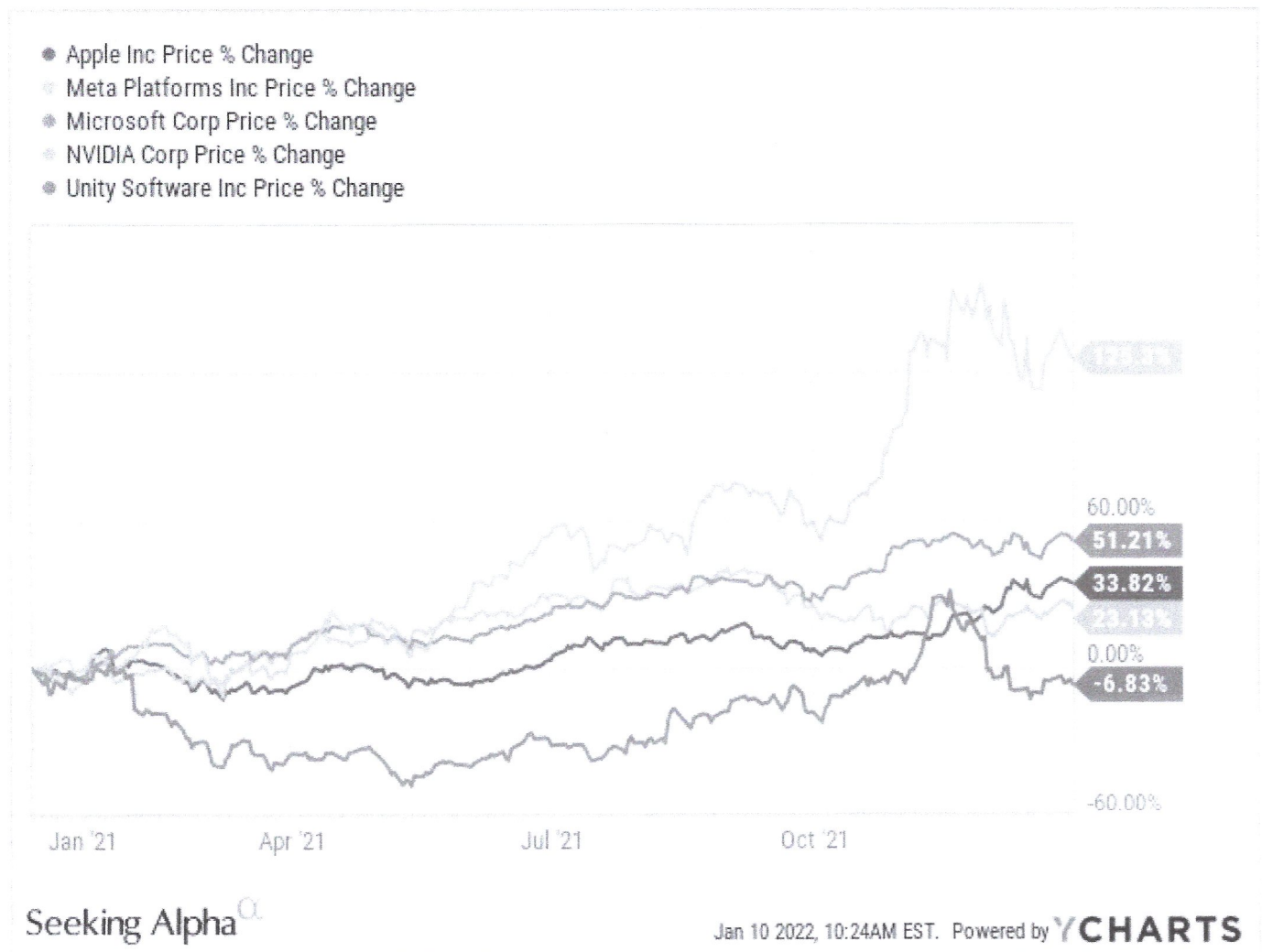
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What Are Metaverse Stocks?

The Metaverse is a virtual world where users interact with each other and the virtual environment, typically using avatars. The interactions can be for business, social, or gaming. Metaverse stocks run the gambit. Some are pure plays, that is, companies who do nothing but the metaverse. Others are software companies that already have successful businesses but may benefit from a new revenue stream. Hardware companies can also be metaverse stocks. In many instances, the metaverse requires the use of augmented reality (AR) or virtual reality (VR) headsets. Several growth stocks benefit from the metaverse movement, while other metaverse stocks are already members of the Big Tech universe with storied histories looking to capitalize on new technology.

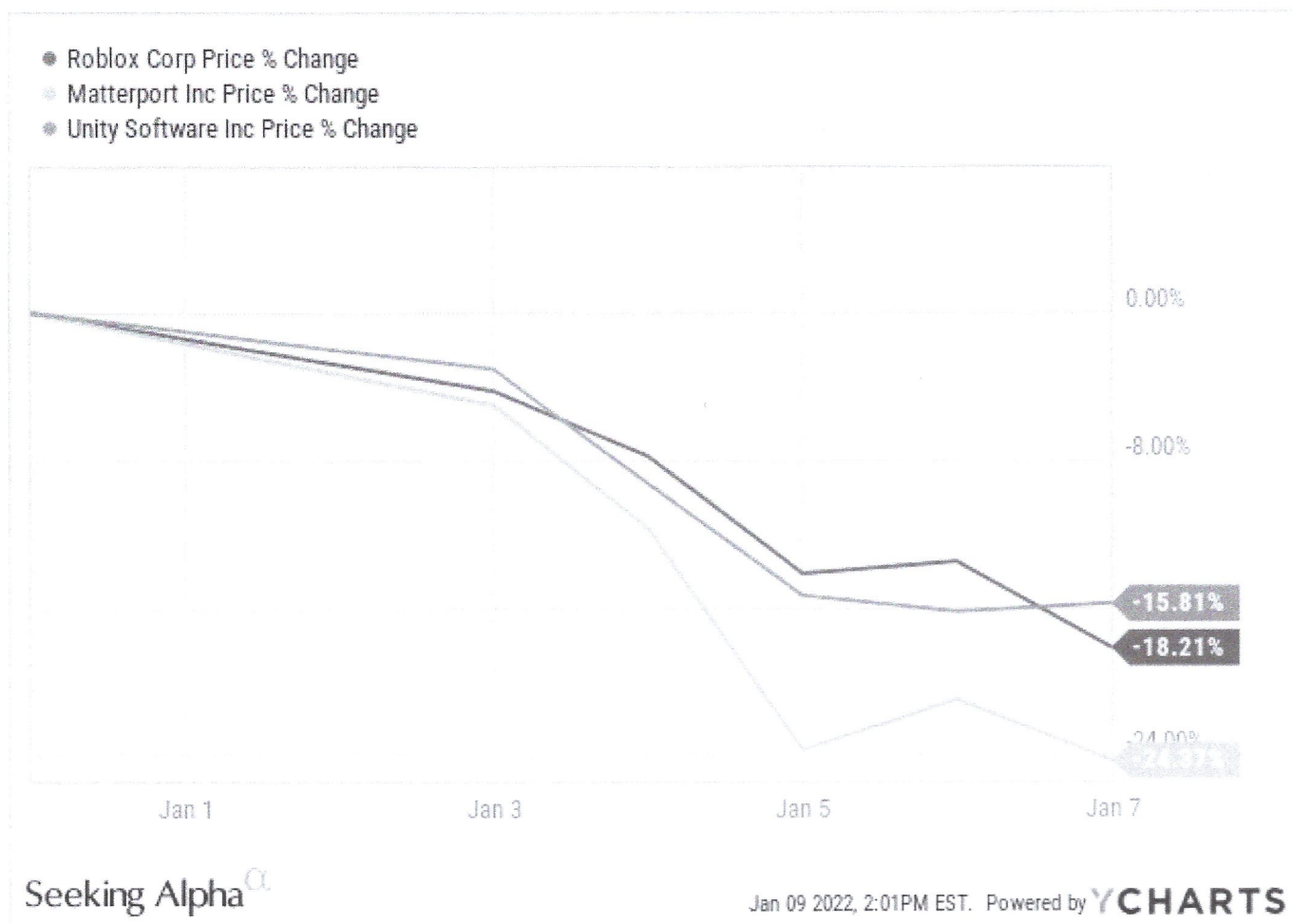
How Did Metaverse Stocks Perform In 2021?

Metaverse stocks were mixed in 2021, with some of the stocks mentioned in this article outperforming the S&P 500 and some not. NVIDIA (NVDA) was the big winner, rising over 125% in calendar 2021. Meta Platforms (FB), formerly Facebook, rose only 23% after being hammered by whistle-blower testimony and other concerns.



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Also of note, hot growth names Roblox (RBLX), Unity Software (U), and Matterport (MTTR) were up considerably in late 2021 but fell substantially heading into 2022. The selling pressure has continued in 2022 as growth stocks have fallen out of favor due to macroeconomic conditions. Graphed below is their performance so far in the new year.



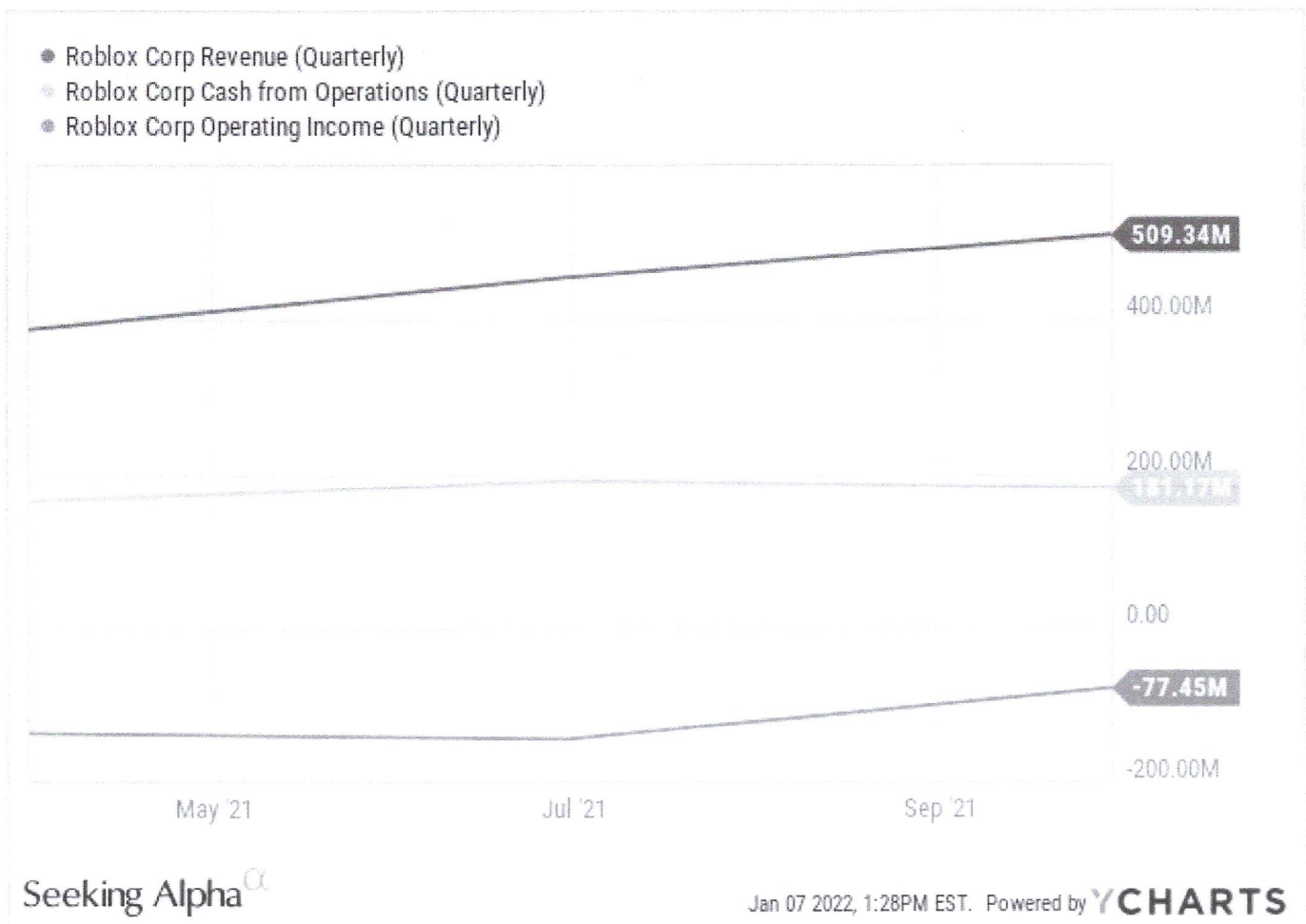
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Metaverse Stocks To Watch In 2022

Roblox

Roblox was a huge story in 2020 and 2021. User growth exploded during the pandemic, as did revenue. Roblox is an online metaverse gaming platform where users can play and create games for free. The company makes most of its revenue from selling in-game "Robux," which allows users to enhance their experience.

Roblox needs to prove that it is not just a "pandemic stock" by continuing to grow its user base and translate this to the bottom line. Its revenue is increasing steadily; however, this has not translated to operating profits. The company is generating ample cash from operations.



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There were some encouraging results in Q3 2021 as well. Daily active users (DAUs) continued to increase, reaching 47.3 million. A colossal figure when compared to the 19.1 million in Q4 2019. Q4 2019 was the last quarter prior to the pandemic in the U.S. The hours that users were engaged also increased in Q3 by 28% year-over-year (YOY).

The valuation is a serious concern. The stock trades at over 20 times sales even after the pandemic sales boost and the recent drop in share price. Current macroeconomic conditions are unfavorable to growth stocks, and Roblox could have further to fall.

Unity Software

Unity Software provides creators with a platform to develop 2D and 3D content for a wide range of devices, including mobile phones, PCs, and AR and VR systems. The beauty of Unity is that content created using the software can be used across many different platforms. Unity has potential far beyond gaming as well.

Unity stock exploded during 2021, but has come down significantly from its highs. It currently trades well over 40% off its 52-week high price of \$210. The current downward pressure is intense, as can be seen below.



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Unity has an excellent gross margin that has come in at 79% and 78% for Q2 2021 and Q3 2021, respectively. The company has also been growing revenues significantly. Revenue rose 43% YOY in Q3 2021 after growing over 48% YOY in Q2 2021.

Unity currently trades at over 30 times forward sales, so, like Roblox, the selling pressure could continue in the near term.

NVIDIA

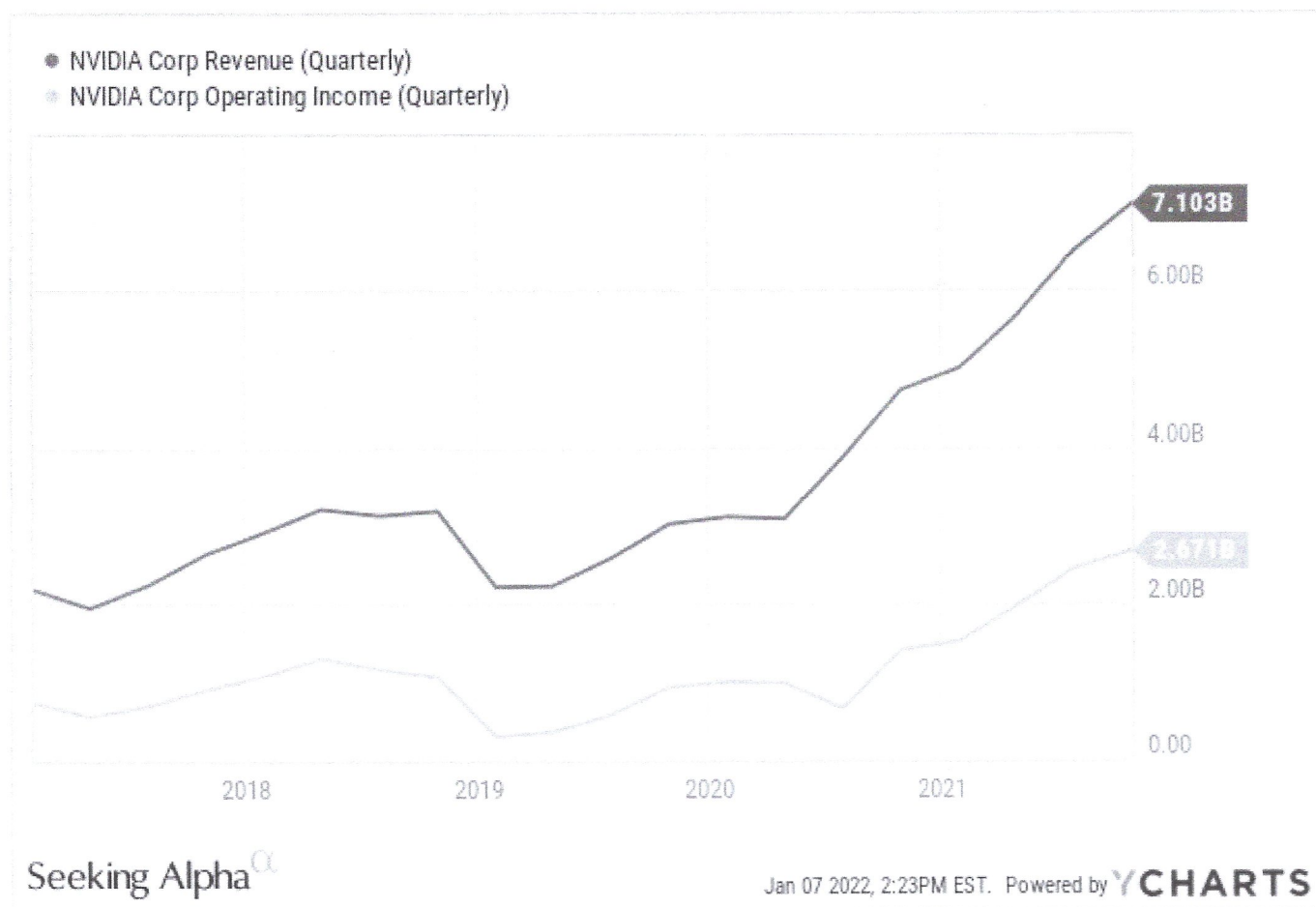
NVIDIA is a "picks and shovels" play on the metaverse. Its chips will be used to power the metaverse platforms that are created. The company has also used CES as a platform to announce the free availability of its Omniverse software which provides the "plumbing" on which metaverses can be built.

More than 70,000 individual creators have downloaded Omniverse. Since the open beta launch in December. There are approximately 40 million 3D designers in the global market.

Our vision for Omniverse came to life at GTC. We significantly expanded its ecosystem and announced new capabilities. Omniverse Replicator is an engine for producing data to train robots. Replicator augments real-world data with massive, diverse, and physically accurate synthetic datasets to help accelerate the development of high-quality, high-performance AI across computing demands. NVIDIA Omniverse Avatar is our platform for generating interactive AI avatars that connect several core NVIDIA SDKs including speech AI, computer vision, natural language understanding, recommendation engines, and simulation.

- Colette Kress, EVP, CFO on fiscal Q3 2021 earnings call.

NVIDIA is much more than a metaverse stock. The company is a highly-profitable juggernaut that had a terrific 2021. It now trades a little over 20% off its 52-week high. Revenue for fiscal Q3 came in at \$7.1 billion, a full 50% over the same period in 2020. Operating income came in at \$2.7 billion, as shown below.



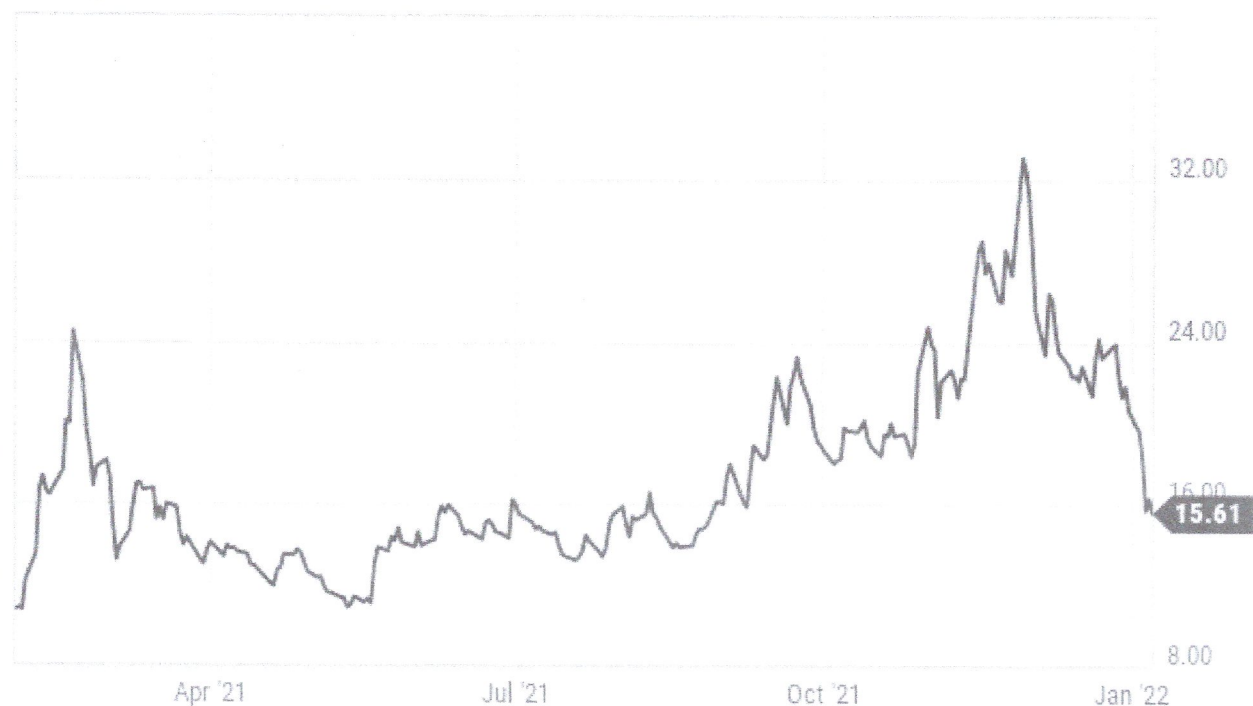
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Revenue growth has significantly accelerated in recent periods, catching the attention of investors. The stock now trades at a forward P/S ratio over 26 and a non-GAAP forward P/E of 65.

Matterport

Matterport is another interesting play on the metaverse. This company takes physical assets and digitizes them. The digitization can then be used for design, operations, or other visualization purposes. Real estate, retail, hospitality, and construction are common industries that benefit. The company reports 439,000 subscribers and \$111 million in annualized revenues. The stock reached a high of over \$37.00 in late 2021 but now trades 58% down from its high.

Matterport Inc Price



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The company went public via SPAC merger in July of 2021 and caution is warranted.

Meta Platforms

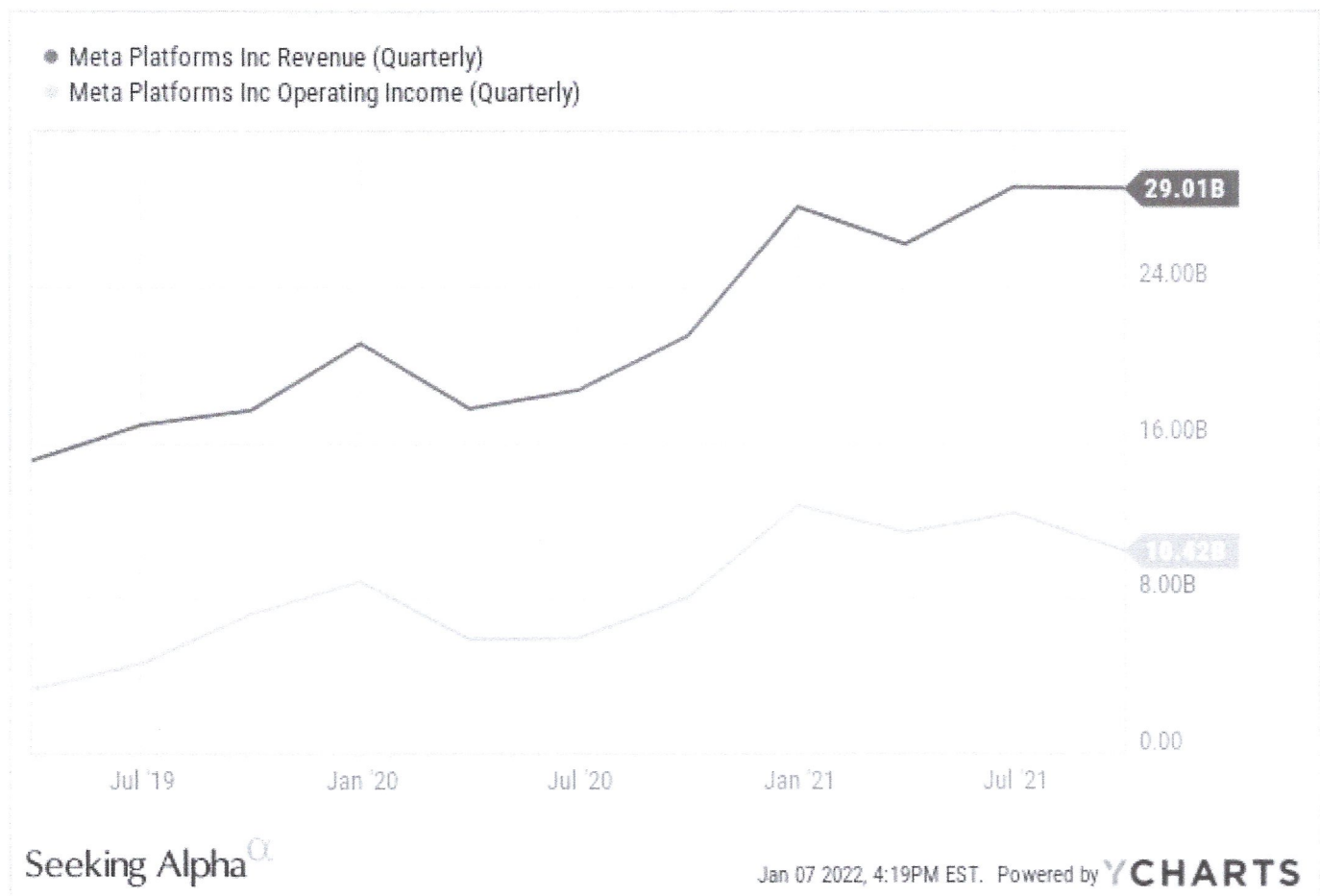
Meta believes in the metaverse so much that it changed its iconic name, Facebook, earlier this year. Meta believes that the future of social media, the natural evolution, is into the metaverse. To this end, it has availed the Oculus VR headsets, including the Rift and Quest lines, and is planning much more.

The metaverse is the next evolution of social connection. Our company's vision is to help bring the metaverse to life, so we are changing our name to reflect our commitment to this future.

3D spaces in the metaverse will let you socialize, learn, collaborate and play in ways that go beyond what we can imagine.

-Meta Platforms

Meta was mired in controversy during 2021 when a whistle-blower testified before congress. The stock was hurt, but it still finished up for the year. Despite the noise, Meta's revenues and operating income have been solid in 2021 and are running well ahead of 2020 numbers.



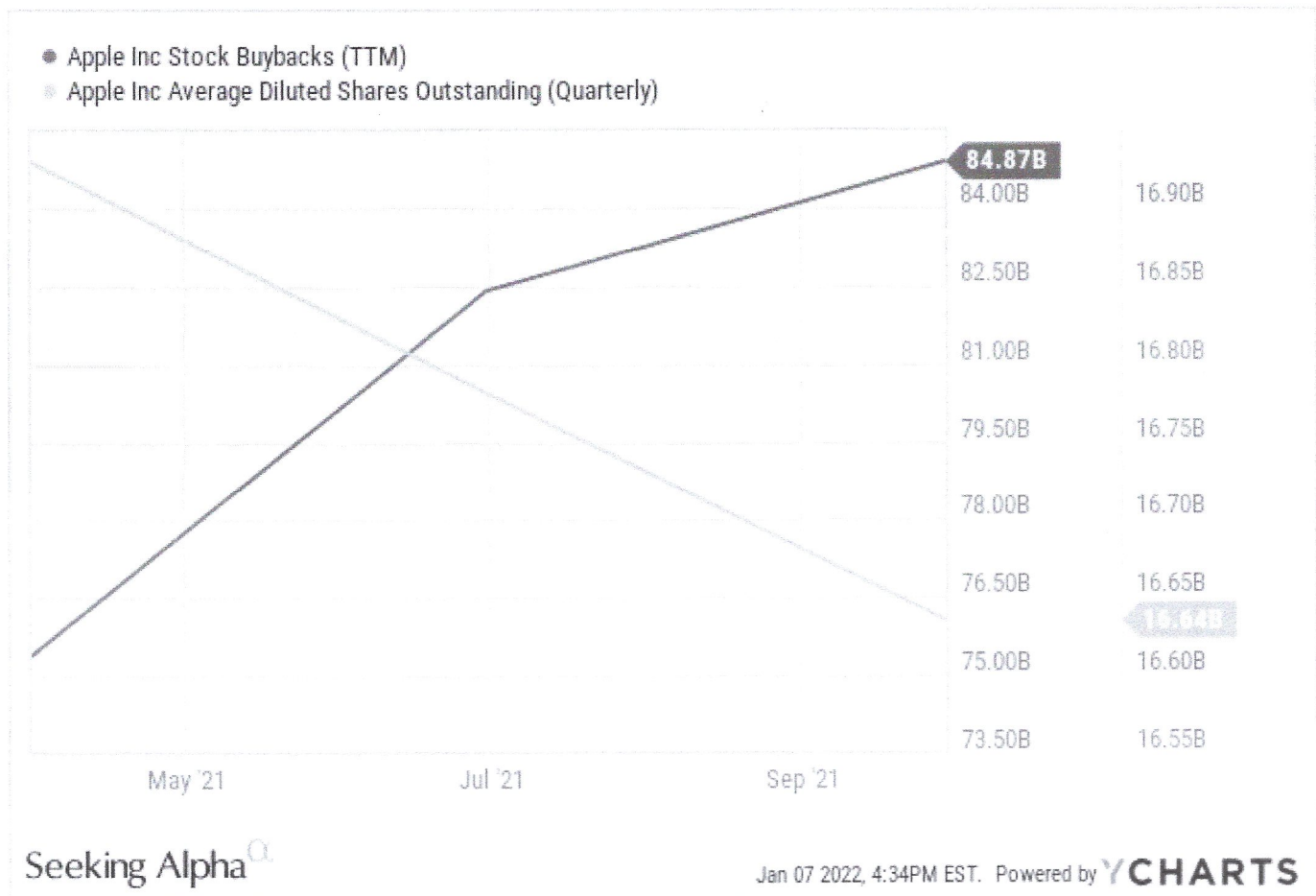
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Look for Meta to have a terrific Q4 on strong advertising figures. The company is trading at a very reasonable forward P/E under 24.

Apple

Apple (AAPL) is another company looking to the metaverse to enhance its already incredible results. Rumor has it that the company is set to launch its AR/VR headset sometime in 2022, with a lighter, sleeker upgrade to follow in 2024. The potential here is massive, considering the company's 1 billion iPhone users are its prime customer base.

The thought of an additional revenue stream alongside the iPhone, Mac, and iPad has investors salivating and briefly pushed the company's valuation over \$3 trillion. Apple's results for fiscal 2021 were stellar. Revenues rose 33% to \$365.8 billion, while operating income rose 64% to \$108.9 billion. Likewise, diluted EPS were up 71% to \$5.61. EPS increased faster than operating revenue thanks to the company's robust share buyback program. As shown below, the company bought back \$85 billion in stock during fiscal 2021, which amounts to almost 3% of the current market cap. The company also pays a small quarterly dividend of \$0.22. The buybacks are advantageous as they shrink the company's outstanding shares, thereby raising EPS faster. They are also a tax-deferred return of capital to shareholders.



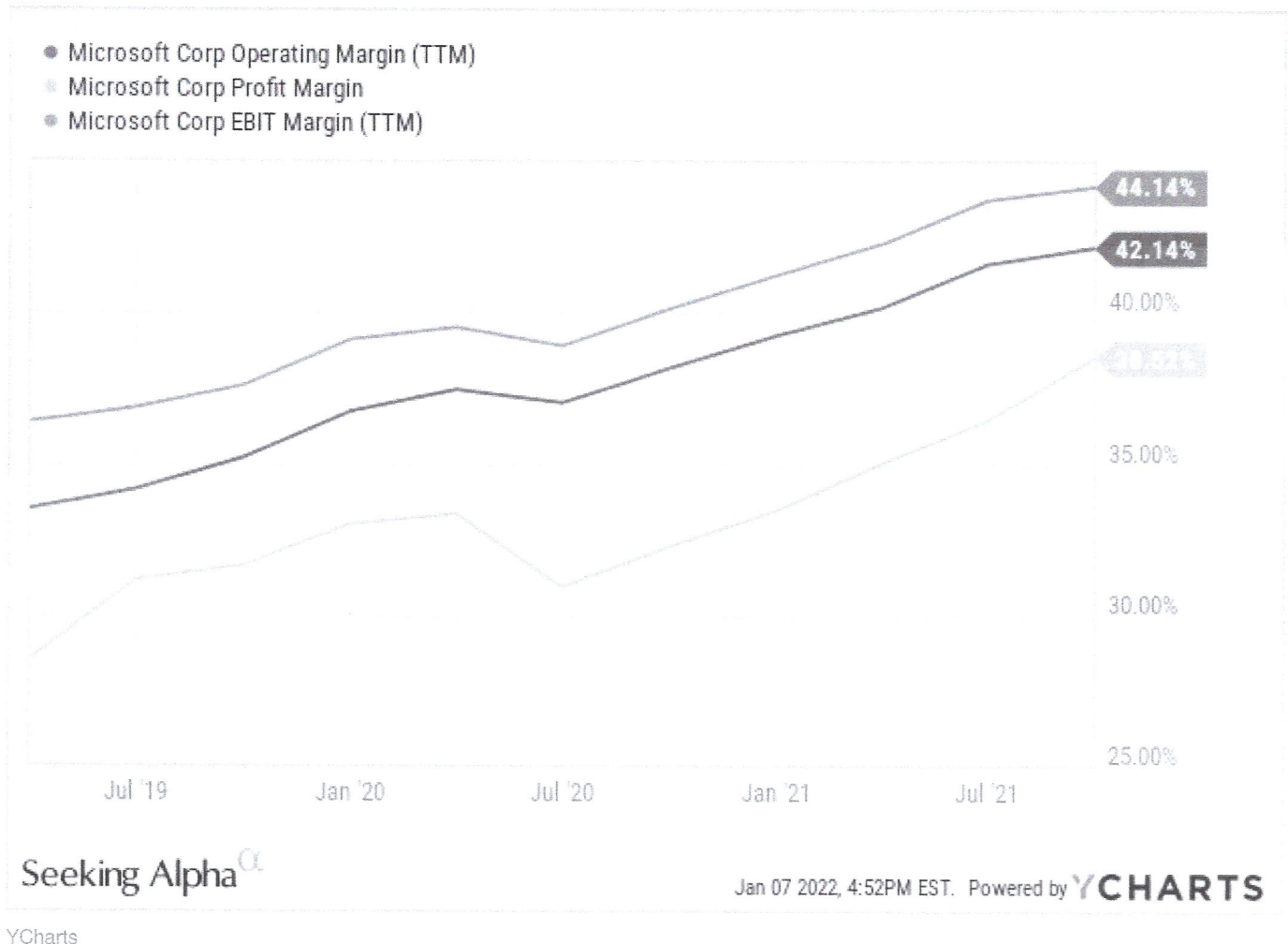
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Apple's current forward P/E ratio, 30, is higher than historical averages due to investor expectations for the coming year and the new product launch. To some, it appears overvalued; however, I wouldn't bet against this stock or this company.

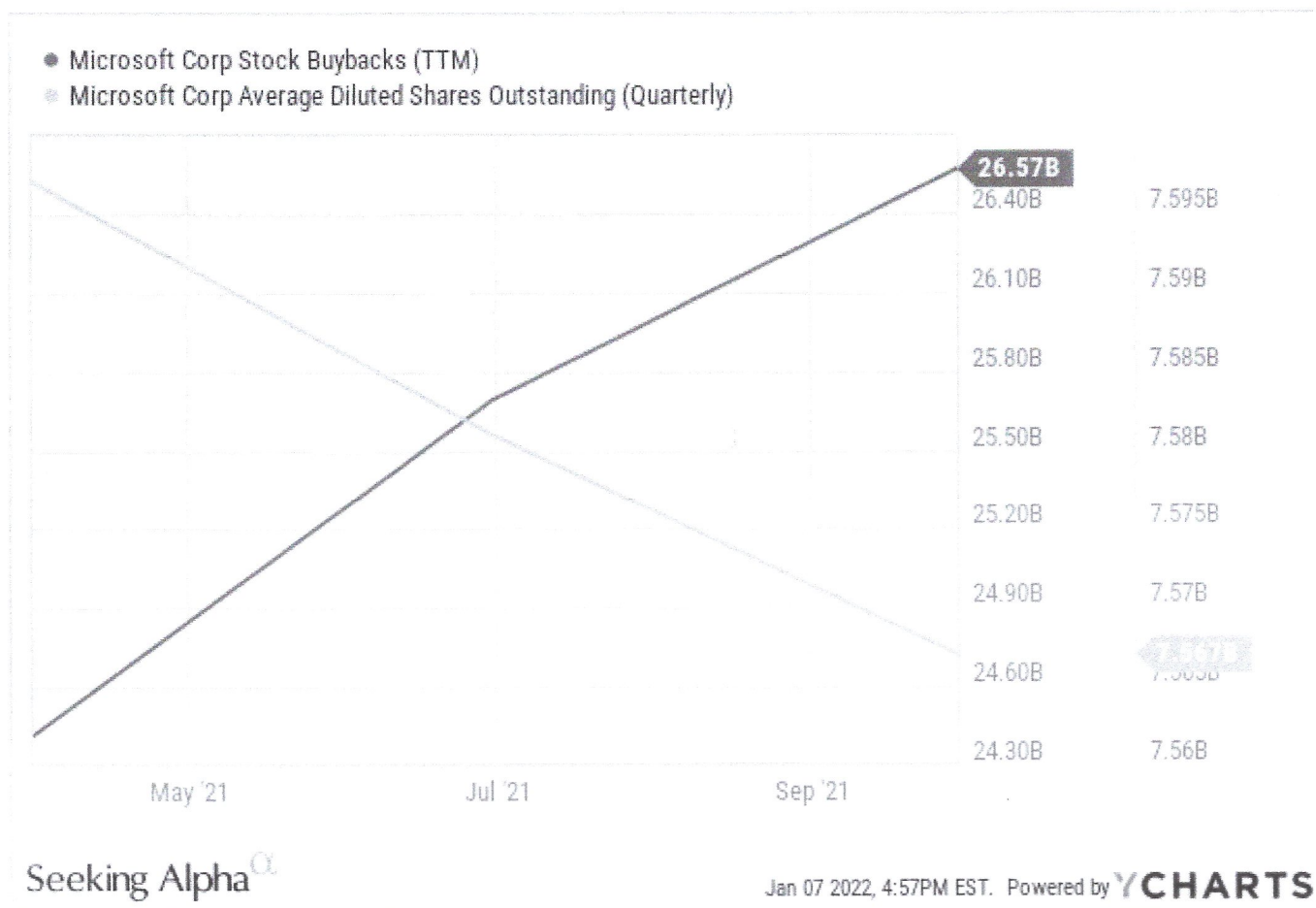
Microsoft

Microsoft (MSFT) wants to capitalize on the metaverse for the business world in the marketplace. Microsoft Mesh for Teams seeks to change the way virtual meetings are currently conducted by moving them from the video camera to the metaverse. Using this software, users can conduct meetings, give presentations, conduct walkthroughs, and many other collaborative functions using AR/VR technology. This is as important as ever as the "work-from-anywhere" movement accelerates. Companies must be able to maintain a strong company culture and collaborative team functions, even from a distance.

Overall, Microsoft had a superb 2021 and is my pick as the top stock on this list for 2022. In fiscal 2021 Microsoft posted an 18% increase in revenue, which reached \$168 billion. Operating income increased 32% to \$70 billion on the back of incredible, and increasing, margins, as shown below. Microsoft is currently posting an operating margin and EBITDA margin of well over 40%, which shows the strength of the software-as-a-service ((SaaS)) model and the company's outstanding management.



Microsoft stock is currently trading 10% off its 52-week high with a forward P/E of 33. Like Apple, the company prolifically buys back stock which supports shareholders in the market and lowers the share count, as shown below.



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Microsoft also pays a very safe \$0.62 quarterly dividend.

For Microsoft, the metaverse opportunities are just icing on the cake. The company is firing on all cylinders going into 2022, and this stock will continue to reward long-term investors handsomely for years to come. For my money, Microsoft is the top play in 2022 based on the total package, increasing margins, growth, cash flow, lower risk, and return of capital to shareholders.

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Are Metaverse Stocks A Good Investment?

Like any other sector, there will be winners and losers and much movement along the way. Some of the stocks mentioned here have limited metaverse exposure and massive valuations, like Microsoft. These have much lower long-term risks. Others, like Roblox, are relatively young and carry a higher risk with lofty ceilings. An investor should consider risk tolerance and long-term portfolio goals when considering a metaverse play. Until the dust settles on growth stocks in the short term, the mega-caps may hold the edge.

This article was written by



Bradley Guichard

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My philosophy is to invest in equities with focus on companies which produce generous amounts of positive cash-flow and have growth opportunities to benefit medium to long-term investors. I have a diversified portfolio including growth and value equities, REITs, dividend stocks, and like to use options for income when the opportunity arises. I have over 15 years of experience in the market.

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