

# Reflections

March 2022

Rio de Janeiro, New Year's Eve, 1994. Not a grain of golden sand was visible across Copacabana's 2.2 miles long stretch of beach, as more than 3.5 million people swayed and sang while Rod Stewart belted out his classics in what is believed to be the largest attended concert in music history. Last year, remarkably, the artist Lil Nas X performed to over 10 times that number during the course of a two-day, four-show set. However, the venue chosen sits in stark contrast to that of the sun-drenched Brazilian beach: the concert took place on the digital entertainment platform, and new LTGG holding, Roblox.

Although this comparison may not be completely fair, it is at least indicative of the growth in popularity of immersive digital experiences and a hint at the role companies such as Roblox are playing in providing a digital 'third place' away from home and work. The sociologist Ray Oldenburg described a 'third place' in his 1989 work, *The Great Good Place*, as somewhere where 'you relax in public, encounter familiar faces and make new acquaintances'. Roblox's mission is much simpler. It was founded in 2004 to 'bring the world together through play', and it does this by providing the platform and infrastructure for developers to build games and experiences and for its users to play and interact. It's increasingly delivering on that mission with more than 200 million monthly active users, and over 40 million games and experiences available.

Roblox sits in contrast to the flurry of companies pivoting to profit from the ever-increasing buzz of the 'metaverse'. Founder and CEO Dave Baszucki's vision of the 'human co-experience' has been the same for 18 years. By resolutely focusing on optimising the user experience, he's built a vast and thriving community recently accelerated by a combination of improving technology and a critical mass of users and developers on the platform.

It's an interesting proposition with an equally interesting way of generating income. Whether paying to play a game, attending a concert or adorning their virtual character with clothes, accessories or even pets, users transact in the platform's digital currency, Robux. When users transfer into Robux the company takes a cut. With circa \$2bn of Robux purchased in 2021 and the average daily user in its US home market spending \$150 per year, it's a potentially lucrative model.

Even more intriguing, perhaps, is that a rise in average spending is just one of the many avenues to future growth that include more users, avatar spending, advertising and ecommerce. Remarkably, an estimated four out of every five kids aged between eight and 13 in North America use the platform. Replicating this globally (excluding China) would mean more than doubling users and Roblox is broadening local language support and machine translation to do just that.

Of even larger scale is the opportunity to 'age up' its base. Its enhanced development tools and open cloud network means creators can now transfer content from other platforms,



David Baszucki, CEO of Roblox.

which leads to both better quality games and experiences. This is already making an impact with its older users, with the 17-24 age group growing the fastest.

A chance to capture the imagination of a captive, engaged community who spend on average 2.5 hours a day on the platform is of great appeal to brands and musicians. The successful creation of both a virtual Gucci Gardens and a Van's World (reaching 60 million combined users) has spurred everyone from the NFL, Nike and Netflix to flock to the platform. A digital handbag could now evolve into a paired physical purchase to match your virtual character. For music labels such as Sony, it might have taken a decade of gigs to reach Lil Nas X's 37 million users. The potential here is clear but for now still nascent.

The multi-faceted growth case also shares LTGG companies' familiar flywheels: developer growth, user growth, improved experiences, and user spending should prove self-reinforcing



and propels our 'blue sky' case as follows: In 10 years users grow to 300 million (same as Snap today) and spend \$80 pa. each, generating circa \$25bn of revenue. The capital-light model results in \$10bn of free cash flow. From today's circa \$30bn market cap, a conservative multiple would see it easily clear more than 5x growth in the coming decade.

This optimistic scenario may suggest we're ignoring the virtual elephant in the room. Namely, is it good for children to be spending 2.5 hours a day on Roblox? Our discussions with academic experts in gaming among children have helped us consider the potential pitfalls and issues on which we continue to engage with the management team. Media panics were similarly alarmist during the rise of radio and TV and, as of yet, evidence of harm is unconvincing. Many parents, such as Shopify's CEO Tobias Lütke, have highlighted the potential benefits of gaming in fostering creativity and enhancing problem-solving skills.

What is important is Roblox's prioritisation of child safety, content moderation and parental controls. For a user-generated content platform like Roblox, this is complex and evolving but vital to get right. Underpinning our investment case and the decision to purchase in January 2022 is our belief that it will.

In today's volatile markets, we're sailing stormy waters but Roblox has given us genuine reason to believe that its growing digital community can generate returns for your portfolio over the next decade and beyond.

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