

Roblox

What it does

Roblox is best described as a 'Virtual High Street'. It is a User Generated platform that is mostly used by teenagers to meet their friends online and create content. Roblox blurs the line between a game developer, a game distributor, and the underlying development environment that powers the games. In doing so, Roblox works to lower the barrier to digital content creation and assist in finding a market for that content.

Why we own it

- Since 2004 Roblox has taken a distinctive approach to building a gaming business that looks quite dissimilar to others.
- It mitigates the risk associated with the success of a given piece of content by facilitating more on-platform creation, not dissimilar to Shopify.
- It looks, in some respects, more like a social media platform than a gaming franchise. It has built an exceptional niche in content for children, and has very good scope to increase monetisation and expand beyond it.
- Efficient and disciplined capital allocation is a key value. Roblox has scaled the business with very little outside capital and the bulk of investment has been organic.
- From the start, founder Dave Baszucki has been committed to his vision, patient and undeterred.

How it could be worth many times more

- Potential to expand the number of daily active users to 300–350m over the next five years. Driven by cohort age expansion and replication of penetration rates achieved in the US more internationally ex-China.
- Monetisation of users driven by increasing customisation, more brands, education, music, advertising and e-commerce. All of this can drive engagement, aside from bookings. The addressable opportunity is vast, given Roblox's ability to recreate aspects of the real economy within its own ecosystem. An annual average of \$80 bookings per user globally is plausible.
- Given the capital-light nature of the business and large margins, there is room for very ample upside from here.

Where we might be wrong

- Inadequate moderation of additive or toxic content alienates certain user groups.
- Fails in expanding beyond existing US, youthful cohort, or that cohort proves flighty.
- Take rate proves overly aggressive and creators defect to alternative expressions for digital entertainment.

Short 10 Questions

Can sales double in the next five years?

1

Yes. User expansion driven by aging-up and geographic expansion, and monetisation driven by increasing product depth.

Ten years and beyond?

2

Baszucki articulates a vision of 1bn users. The limit to what can be recreated within this ecosystem in terms of economic structures is unbounded.

Competitive advantage?

3

Exceptional social elements, with shared game play, and very low customer acquisition costs.

Is the business culture different?

4

Aligned founder with ambitious vision at the helm of a company that has consistently made unique decisions to forge its own path.

Customers like you? Contribute to society?

5

It's fun. The more people play, the more incentive there is to create content within Roblox. Some question marks over content moderation and take-rates, however.

Are returns worthwhile?

6

Income statement skewed by amortisation, but underlying is extremely positive. Implied cash returns on equity 100%+ and virtual currency means very low-cost 'float' financing.

Will they rise or fall?

7

Rise with scale as investments for growth become smaller as a % of total revenues and asset turn improves.

How is capital allocated?

8

Facebook needed 5x more external capital than Roblox to reach similar scale, so trajectory of capital allocation is strong. Focus on organic growth, platform technology and moderation.

Could it be worth 5x as much?

9

Yes, more players at more ages spending more time in Roblox driven by content flywheel. If 1bn users is achieved and bookings per users look even vaguely like current US metrics, we can imagine valuations in the hundreds of billions.

What doesn't the market understand?

10

Sees Roblox as just another cyclical 'one hit wonder' in gaming, rather than an enduring ecosystem that can extend into many aspects of virtual daily lives.

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