

Reflections

August 2022



In June 2022, one of Long Term Global Growth's decision-makers, Robert Wilson, shared his views on the future of entertainment during Baillie Gifford's 'Disruption Week'. What follows is a summary of what was discussed.

A fight for your free time is underway.

Over the past several years, there has been a decline in the younger generations' interest in offline social institutions such as local sports clubs, religious organisations and unions. Meanwhile, rapid technological progress has enabled people to do more online – to consume content, to express themselves and to socialise.

This creates an extensive set of investment opportunities in the increasingly digital world of entertainment. We can think about these in three broad categories:

- 1 Content creators:**
the companies involved in the making of games, books, films, music and other media. Netflix is a good example as it creates its own content, though it's much more than just a studio. The LTGG team tends to avoid investing in pure content creators, as their fate can all too often turn on a singular product being a hit or a flop.
- 2 Distribution players:**
the companies providing access to professional and/or user-generated content via proprietary internet platforms or other means. Examples in the LTGG portfolio include audio platform Spotify and short video platform Bilibili.
- 3 'Picks and shovels' providers:**
the businesses making the underlying technologies that enable the above. Examples in the LTGG portfolio include NVIDIA, the leader in graphic processing units and chips for artificial intelligence, and ASML, the maker of the lithography machines that make the chips.



One advantage of the LTGG team being generalists rather than deep industry specialists is that they can consider cross-industry phenomena. For example, some of the companies we invest in span all three of the categories above – such as Amazon, whose studios produce content, whose online platform distributes that content and whose cloud technology (Amazon Web Services) enables such content to be streamed to our living rooms.

Competition for your free time is intense. Last year, for example, short-form video platform TikTok effectively had twice the level of aggregate engagement than Netflix. The distinction between their profit margins is even starker, as TikTok is a user-generated platform while Netflix invests heavily in producing its own content. This illustrates how competition extends far beyond Netflix's long-form video streaming peers.

If we stretch our time horizon to imagine what our leisure time will look like in 2050, the current hype suggests we'll spend most of our days in the 'metaverse' – a computer-generated location to play and socialise. We think the word 'metaverse' conflates a lot of different ideas. We are wary of claims these will all come true at once and that the value will accrue to one company. However, we do anticipate meaningful increases in virtual reality (VR) and augmented reality (AR), and in the monetisation of games as they become increasingly social worlds. It may seem outlandish today, but could the virtual economy overtake the real economy in future?

While Meta is an example of an LTGG holding that currently leads the field in terms of VR entertainment, Roblox could be poised to benefit too. It already encourages third-party developers to create new items and experiences on its gaming platform, and lets others play and purchase them with its virtual currency. Interestingly, Roblox is already expanding into other categories beyond games and attracting an older audience too.

When considering the rapidly evolving opportunities in entertainment, it is easy to get lost in speculative excitement about technological advances in semiconductors, the metaverse and so on. However, what is more interesting for us is not the change in technology itself, but the level of creativity it is fostering.

“That creativity will make some companies capable of having a much more profound relationship with their end customers. That tends to result in good economics,” says Robert. “And if you're willing to be a long-term, patient investor in select companies, gains should follow over time.”



To watch Robert's session, please click here.

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