There's Nothing Virtual About VR Revenues

You'll likely have heard of Improbable – a virtual reality (VR) firm, which specialises in developing huge online simulations. It's one of the UK's newest billion-dollar tech "unicorn" firms, having recently been funded by Japan's ever-muscular SoftBank. My talk at our recent Tech Investor's Symposium was all about how to find such firms, among all the clutter of no-hope companies in the market. One such dog was AltspaceVR – which recently flamed-out, after guzzling $16m funding.

This recent flurry of news has probably started you wondering about the commercial potential for VR – and the investment risks. So, what's the story?

The smartphone has revolutionised the potential for mass adoption of VR. I work with technology firms on a daily basis, and first tried out phone-based VR well before it was commonplace. At the time, I didn't realise it was a phone – because the graphics experience was so good. I was convinced I was using custom VR hardware.

The fact that this potential exists, even in phones that haven't been optimised for VR, is amazing. But it can only get better. The VR use case will become a "baked in" part of every phone's software. I don't think it will be long before it's routine for phones to ship with VR sets as standard, or at least as an optional extra. Google thinks so, and is working with Hulu, Netflix and (internally) with YouTube on a VR-based ecosystem.

But what will all this technology end up being used for? To put it another way: what's the point of VR?

In our (sadly canned) "Day in 2050" series, no uses smartphones anymore. Everyone has "e-glasses" – a kind of always-on VR set. These are controlled by brain-machine interfaces, and by eye tracking. You might think that's just sci-fi speculation, but the majors don't agree. First, as regards eye tracking: Facebook's Oculus unit bought The Eye Tribe, and Google snapped up Eyefluence. Soon, we'll be using eye-tracking routinely. But always-on glasses – like Google's recently resurrected Google Glass project – may take longer to go mainstream. This is clearly an industry where the opportunities are hard to define.

Today and tomorrow, I'll give you a rundown of some of the most prominent applications, and a summary of where I think the opportunities lie.

First: cinema and TV. This is a medium that struggles with innovation. We've had 3D cinema since the 50s (albeit not a great version). However, the majority of films are still viewed in 2D today. Cineworld now has its seat-waggling 4DX concept – but it's rather gimmicky. Having jets of air and water in your face quickly becomes a distraction. The fundamental issue for innovation in the core experience of cinema and TV is that it's already good. Sure, we now have digital cinema, high-def TV, and surround sound. However, the central experience is broadly unchanged since colour arrived: in film in the 1930s, and TV in the '60s. All the subsequent major innovation has been on content and hardware, not the viewing format.

In future, can we really expect a world where everyone watches films on VR sets? I personally don't think so – and certainly not in the cinema. VR cinema is an inherently anti-social experience, and you may as well stay at home. Unless we're envisaging a future where our friends and families are actually absorbed into the movies as avatars, VR movies mean watching in a lonely little bubble. That's fine for watching on your own, but most people want to hang out with others, when enjoying films and shows. There are already some VR cinemas opening, but it's hard to see the lasting appeal. At best, I expect VR cinema to be a short-lived fad – and one with little geographic spread.

Steven Spielberg sees some creative issues, too: "I think we're moving into a dangerous medium with virtual reality. The only reason I say it is dangerous is because it gives the viewer a lot of latitude not to take direction from the storytellers, but make their own choices of where to look. I just hope it doesn't forget the story, when it starts enveloping us in a world that we can see all around us and make our own choices [as to what] to look at."

That doesn't sound like a deal-breaker for the technology. However, VR needs to offer something more than just temporarily impressive gimmicks, to capture a major share of the film or TV market. However, with the falling cost of the necessary hardware and processing, it's not impossible that a lot of content will be produced in VR formats by default – giving the viewer the choice of how to consume. YouTube is an example of this kind of creeping expansion – and I recently watched a SpaceX video in 360 format. In case you're unfamiliar, 360 video is not-quite-VR. You can choose where to look – but you don't have the full 3D experience.

The potential for the ubiquity of VR content gives investment opportunities in the "picks and shovels" of this particular gold rush –

the cameras and production tools. Have a look at HypeVR, and the EYE from 360 Designs, for examples of the kit that's required. In terms of software, Visionary VR is producing editing tools. There will be many others that come (and go) as the field matures – so brace yourself for tears as well as thrills, if you invest in this sector.

We'll be revisiting this issue tomorrow – so you might want to hold off the comments until then. But, if you can't wait, by all means write in to the usual address: andrew@southbankresearch.com.

Meanwhile, if you'd like some more specific information on how to profit from technology markets, then check out our sister publication *Revolutionary Tech Investor* – by Sam Volkering.

Best,

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