

Roku, Inc. (ROKU)

\$127.52 (As of 05/06/20)

Price Target (6-12 Months): **\$134.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: D

Summary

Roku is benefiting from robust growth in advertising driven by monetized video ad impressions on increasing popularity of The Roku Channel. Additionally, expanded licensing partnerships and advertising video on demand partners are key growth drivers. Moreover, streaming hours growth is likely to boost TV streaming advertising on Roku's platform driving advertising revenues in the near term. However, intensifying competition from local traditional pay TV services and products, including Internet streaming providers and mobile streaming platforms, is compelling the company to spend more on software development and marketing which is keeping margins under pressure. Notably, the company has scrapped 2020 guidance due to economic uncertainty arising from the coronavirus outbreak. Shares have underperformed the industry on a year-to-date basis.

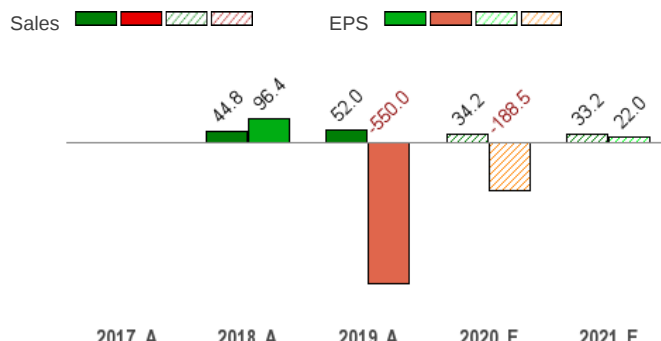
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$176.55 - \$58.22
20 Day Average Volume (sh)	13,314,745
Market Cap	\$15.3 B
YTD Price Change	-4.8%
Beta	1.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Broadcast Radio and Television
Zacks Industry Rank	Bottom 44% (142 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.1%
Last Sales Surprise	4.8%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	05/07/2020
Earnings ESP	-6.3%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	13.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	388 E	410 E	490 E	661 E	2,018 E
2020	297 E	310 E	342 E	542 E	1,515 E
2019	207 A	250 A	261 A	411 A	1,129 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.37 E	-\$0.41 E	-\$0.21 E	\$0.02 E	-\$1.17 E
2020	-\$0.45 E	-\$0.42 E	-\$0.48 E	-\$0.11 E	-\$1.50 E
2019	-\$0.09 A	-\$0.08 A	-\$0.22 A	-\$0.13 A	-\$0.52 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/06/2020. The reports text is as of 05/07/2020.

Overview

Roku is the leading TV streaming platform provider in the United States based on hours streamed.

The company estimates 39.8 million active accounts as of Mar 31, 2020, a net increase of nearly 3 million since Dec 31, 2019 attributed to sale of stand-alone streaming devices, partnerships with TV brand partners like TCL, JVC, Sharp and other leading TV-makers who license the Roku OS to manufacture and sell Roku TV models, and licensing of Roku OS to certain service operators.

Moreover, Roku is benefiting from growth in advertising driven by monetized video ad impressions on increasing popularity of The Roku Channel. The acquisition of dataxu, a Boston-based advertising technology company in 2019 is expected to strengthen Roku's over-the-top (OTT) advertising roadmap.

Roku reported revenues of \$1.12 billion in 2019. The Los Gatos, CA-based company operates through two reportable segments: Platform and Player.

The Platform segment generates revenues from advertising sales, subscription and transaction revenue shares, the sale of branded channel buttons on remote controls and licensing arrangements with TV brands and service operators. In 2019, Platform revenues increased 78% year over year to \$740.8 million.

The Player segment derives revenues from the sale of streaming players through consumer retail distribution channels, including major brick and mortar retailers, such as Best Buy and Walmart, and online retailers, primarily Amazon.

In 2019, Roku generated \$388.1 million player revenues with 29% year-over-year increase in volume of players sold. Nearly one in three smart TVs sold in the United States were Roku TVs.

Roku faces immense competition from existing local traditional pay TV services and products. Companies such as Amazon, Apple and Google offer TV streaming devices that compete with Roku streaming players and Roku TV. Additionally, Google and Amazon license their respective OS for integration into smart TVs.



Reasons To Buy:

- ▲ Roku generates revenues from subscriptions and advertising, with the latter boasting long-term potential for sustainable growth. Roku monetized video ad impressions more than doubled in 2019. The company is the market leader in ad-supported streaming space with 40.3 billion hours of streamed content reported in 2019. The Roku Channel reached active accounts with an estimated 56 million viewers in 2019 and more than 55 live linear channels.
- ▲ Roku's acquisition of demand-side platform, Dataxu will position the streaming service provider to compete more fiercely for ad dollars as it shifts from the \$70 billion linear TV market to digital platform. The acquisition will enhance and automate services provided to marketers on Roku's advertising platform. Dataxu's software will provide marketers on Roku the ability to automate how they purchase video ads across platforms, including online video TV and over-the-top (OTT), on Roku's owned and operated properties using a self-serve interface.
- ▲ Roku brings value to TV brands, offering lower hardware cost, more content, low return rates, automatic software updates, wide retail distribution and the strength of the Roku brand. The range of sizes and features at affordable price points is appealing to a broad range of consumers. In 2019, the company added many TV brands and retailers to the Roku TV ecosystem including Walmart's house brand, onn. The first onn. Roku TV, announced in fall, was sold exclusively in Walmart U.S. stores over the Black Friday weekend.
- ▲ International expansion is key to Roku's top-line growth. In September 2019, the company announced the launch of Roku TV in UK with Hisense. Roku partnered with TPV in Brazil, bringing locally built AOC Roku TV models to market. Moreover, the company also launched streaming service Globoplay for Roku customers in partnership with Brazil-based media powerhouse Globo. Notably, more than one in four smart TVs sold in Canada were Roku TVs in 2019.
- ▲ Roku's improved liquidity makes the stock attractive to investors. As of Dec 31, 2019, cash, cash equivalents including short-term investments were \$515.5 million compared with \$387.5 million as of Sep 30, 2019. The improved liquidity will help Roku to meet its working capital requirements. The company's long-term debt stood at \$95 million on Dec 31, 2019, while total debt-to-capital of 0.12 was favorable against industry's 0.69.

Roku benefits from the growing popularity of The Roku Channel, dominance in ad-supported streaming space, expanding TV-brands & retailer partner base and international expansion.

Reasons To Sell:

- ▼ Increased competition carries risk of lower sales volume, revenues and operating margins. Roku faces immense competition from existing local traditional pay TV services and products, including those provided by incumbent pay TV service providers and mobile streaming platforms. Competitors with more extensive product lines and stronger brand identity such as Apple or Google possess greater bargaining power with retailers. Companies such as Amazon, Apple and Google offer TV streaming devices that compete with Roku streaming players and Roku TV. Additionally, Google and Amazon license their respective OS for integration into smart TVs. Roku's Smart Soundbar and Roku Wireless Subwoofer face additional competition from makers of TV audio speakers and sound bars, as well as makers of other TV peripheral devices.
- ▼ Evolving TV standards such as 4K, 8K, HDR and technology upgrades require continued investments in the development of Roku players, Roku TV and other platforms putting margins under pressure, thereby increasing operating cost. In 2019, research and development expenses (24% of total revenues) increased 55% year over year to \$265 million. As of Dec 31, 2019 the company had 1,650 full-time employees, of which 850 were in research and development.
- ▼ International expansion and content additions resulted in cost escalations in the form of marketing expenses. Sales and marketing expenses increased 74% year over year to \$175 million in 2019, a trend likely to continue in 2020.
- ▼ Roku has been incurring operating losses since inception and had an accumulated deficit of \$313.8 million as of Dec 31, 2019. The company does not expect to generate profit sooner amid growing investments on sales & marketing and research & development. Despite the increasing top line, mounting losses doesn't augur well for investor confidence in our view.

Increasing competition in the streaming space from the likes of Amazon, Apple and Google and higher sales & marketing expenses are major concerns.

Last Earnings Report

Roku Q4 Loss Narrower Than Expected, Revenues Up Y/Y

Roku reported fourth-quarter 2019 loss of 13 cents per share that was narrower than the Zacks Consensus Estimate of a loss of 14 cents. The company had reported earnings of 5 cents per share in the year-ago quarter.

Revenues soared 49.1% from the year-ago quarter to \$411.2 million and comfortably beat the consensus mark by 4.8%.

Active accounts jumped 36% year over year to 36.9 million. Streaming hours increased 60% year over year to 11.7 billion. Moreover, average revenue per user (ARPU) grew 29% to \$23.14 (on a trailing 12-month basis).

Top-Line Details

Platform revenues (63.1% of revenues) surged 71.5% year over year to \$259.6 million.

Robust growth in advertising continued as monetized video ad impressions once again more than doubled year over year, a key catalyst in boosting the top line.

Player revenues (36.9% of revenues) increased 22% from the year-ago quarter to \$151.6 million. Player unit sales were up 33% year over year, primarily attributed to growth in core retail channels of the company.

Average sales price (ASP) declined 10% due to the company's strategy of offering attractive discounts to players.

It witnessed strong unit sales of Roku TV in the reported quarter. The company sold the first onn. Roku TV in Walmart's U.S. stores over the Black Friday weekend. Notably, onn. is Walmart's in-house brand.

The company believes that Roku TV represented more than one in three smart TVs sold in the United States in 2019.

Operating Details

Gross margin contracted 140 basis points (bps) on a year-over-year basis to 39.3%. Decline in ASPs affected the gross margin.

Operating expenses, as a percentage of revenues, increased 480 bps from the year-ago quarter to 43.5%. Growth in headcount and sales & marketing (S&M) expenses led to higher operating expenses.

S&M, research & development (R&D) and general & administrative (G&A) expenses increased 250 bps, 70 bps and 170 bps, respectively.

In the fourth quarter, adjusted EBITDA declined 38.2% year over year to \$15.1 million.

Operating loss was \$17.4 million in the reported quarter. The company had reported an operating income of \$5.5 million in the year-ago quarter.

Balance Sheet & Cash Flow

As of Dec 31, 2019, cash and cash equivalents including short-term investments were \$515.5 million compared with \$387.5 million as of Sep 30, 2019.

Guidance

For first-quarter 2020, Roku expects revenues between \$300 million and \$310 million. At midpoint, revenues are expected to grow 48% year over year.

Gross profit is expected between \$143 million and \$148 million. Adjusted EBITDA loss is expected between \$18 million and \$23 million.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	4.79%
EPS Surprise	7.14%
Quarterly EPS	-0.13
Annual EPS (TTM)	-0.52

Recent News

On Apr 16, Roku announced a partnership with Global Citizen to bring Roku users *One World: Together at Home*, a global special that pays tribute to and celebrates frontline healthcare workers fighting against coronavirus outbreak.

On Apr 13, Roku announced withdrawal of its full-year 2020 financial outlook due to economic uncertainties arising from the COVID-19 pandemic. Roku expects first-quarter streaming hours to be 13.2 billion, indicating an increase of 49% year over year.

On Apr 6, Roku announced the launch of The Roku Channel streaming in the U.K. comprising more than 10000 movies, TV episodes and documentaries. The channel is available to consumers with a Roku streaming player, Roku TV, NOW TV device or Sky Q box.

On Mar 31, Roku announced that it will start to roll out the Roku OS 9.3 to Roku devices in the UK shortly. The new update comes with Roku Voice and compatibility with Amazon Alexa and Google Assistant.

On Jan 21, Roku announced the launch of its streaming platform for audiences in Brazil. The company partnered with AOC in Brazil to bring the AOC Roku TV to consumers in the country.

On Jan 7, Roku announced the new Roku TV Ready program enabling third-party consumer electronics products to work seamlessly with Roku TV models. Denon and TCL North America are among the first partners under the program.

On Jan 6, Roku announced that five TV brands including Hisense, Hitachi, InFocus, JVC, Philips, Polaroid, and TCL among others will launch Roku TV models in Canada, Mexico, the United States and the U.K. in 2020 at an affordable price.

Valuation

Roku shares are down 4.7% in the year-to-date period while up 96.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 2.1% and 20.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 0.3% while the sector is down 15.8%.

The S&P 500 index is down 11.5% in the year-to-date period and 1.2% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 13.18X, which compares to 8.73X for the Zacks sub-industry, 2.63X for the Zacks sector and 2.82X for the S&P 500 index.

Over the past two years, the stock has traded as high as 20.84X and as low as 4.13X, with a 2-year median of 10.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$134 price target reflects 9.5X forward 12-month sales.

The table below shows summary valuation data for ROKU

Valuation Multiples - ROKU					
		Stock	Sub-Industry	Sector	S&P 500
EV/Sales TTM	Current	13.18	8.73	2.63	2.82
	2-Year High	20.84	15.82	3.53	3.43
	2-Year Low	4.13	6.80	2.26	2.22
	2-Year Median	10.2	10.72	3.22	2.99
P/S F12M	Current	9.05	6.99	1.94	3.21
	2-Year High	15.24	11.24	2.58	3.44
	2-Year Low	3.06	6.61	1.67	2.76
	2-Year Median	7.6	8.00	2.2	3.16
P/B TTM	Current	21.91	15.48	2.68	3.78
	2-Year High	41.82	52.1	4.47	4.55
	2-Year Low	10.96	11.64	2.18	3.02
	2-Year Median	23.74	19.99	3.55	3.98

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (142 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc (AAPL)	Neutral	3
Amazoncom Inc (AMZN)	Neutral	3
Comcast Corporation (CMCSA)	Neutral	3
The Walt Disney Company (DIS)	Neutral	5
Facebook Inc (FB)	Neutral	3
Alphabet Inc (GOOGL)	Neutral	3
Netflix Inc (NFLX)	Neutral	2
ViacomCBS Inc (VIAC)	Underperform	4

Industry Comparison Industry: Broadcast Radio And Television				Industry Peers		
	ROKU	X Industry	S&P 500	AAPL	AMZN	GOOGL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	F	-	-	C	F	D
Market Cap	15.30 B	433.21 M	19.11 B	1,303.03 B	1,172.75 B	924.69 B
# of Analysts	7	1	14	12	13	12
Dividend Yield	0.00%	0.00%	2.2%	1.02%	0.00%	0.00%
Value Score	F	-	-	C	F	D
Cash/Price	0.04	0.19	0.06	0.07	0.04	0.13
EV/EBITDA	-344.64	5.19	11.69	16.58	30.69	16.01
PEG Ratio	NA	0.58	2.48	2.29	4.96	2.02
Price/Book (P/B)	21.89	0.84	2.58	16.61	17.97	4.54
Price/Cash Flow (P/CF)	NA	2.55	10.40	19.70	35.07	19.37
P/E (F1)	NA	6.44	18.81	24.43	119.06	32.44
Price/Sales (P/S)	13.55	0.54	1.97	4.86	3.96	5.55
Earnings Yield	-1.18%	6.90%	4.99%	4.09%	0.84%	3.08%
Debt/Equity	0.14	1.38	0.75	1.14	0.36	0.08
Cash Flow (\$/share)	-0.37	1.77	7.01	15.26	67.05	69.45
Growth Score	F	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	NA%	12.73%	10.87%	9.79%	102.38%	23.83%
Proj. EPS Growth (F1/F0)	-189.29%	-25.90%	-9.86%	3.50%	-14.18%	-15.64%
Curr. Cash Flow Growth	5,300.00%	-0.56%	5.88%	-3.74%	31.33%	12.62%
Hist. Cash Flow Growth (3-5 yrs)	NA%	12.95%	8.55%	7.40%	49.26%	19.91%
Current Ratio	2.58	1.70	1.25	1.50	1.08	3.66
Debt/Capital	11.94%	58.80%	44.23%	53.18%	26.42%	7.07%
Net Margin	-5.31%	6.66%	10.87%	21.35%	3.56%	20.71%
Return on Equity	-12.09%	7.14%	16.36%	64.49%	17.83%	17.43%
Sales/Assets	1.18	0.38	0.55	0.81	1.42	0.62
Proj. Sales Growth (F1/F0)	34.18%	0.00%	-2.18%	0.71%	23.04%	4.64%
Momentum Score	D	-	-	B	F	F
Daily Price Chg	3.26%	0.00%	-1.27%	1.03%	1.44%	-0.27%
1 Week Price Chg	-8.66%	2.61%	0.53%	2.16%	-5.15%	3.19%
4 Week Price Chg	45.22%	0.82%	0.68%	12.99%	15.09%	11.47%
12 Week Price Chg	-7.79%	-36.59%	-22.30%	-8.12%	8.85%	-11.41%
52 Week Price Chg	96.43%	-37.24%	-11.55%	48.17%	22.60%	14.92%
20 Day Average Volume	13,314,745	131,026	2,470,143	36,059,472	5,934,923	2,375,849
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	3.14%	-29.55%	0.90%
(F1) EPS Est 4 week change	0.49%	-13.51%	-6.52%	-1.57%	-28.09%	-7.93%
(F1) EPS Est 12 week change	-180.05%	-25.21%	-14.84%	-10.48%	-28.36%	-23.91%
(Q1) EPS Est Mthly Chg	0.48%	-19.23%	-12.48%	-7.80%	-72.82%	-18.62%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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