

## Roku, Inc. (ROKU)

**\$164.28** (As of 08/26/20)

Price Target (6-12 Months): **\$173.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 11/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: F

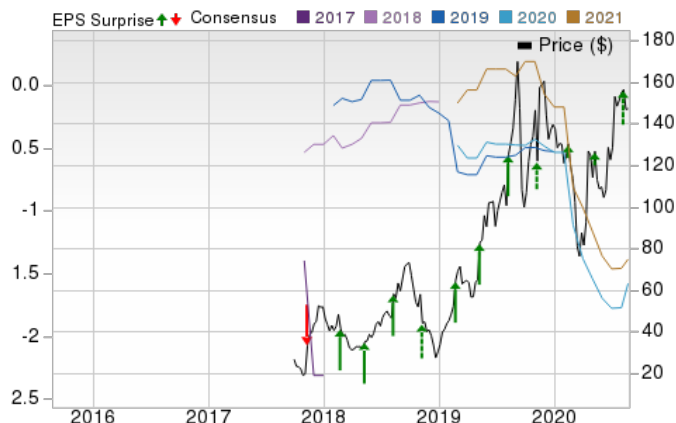
Growth: C

Momentum: A

### Summary

Roku's second-quarter 2020 results benefited from increased ARPU and user engagement owing to the coronavirus-led lockdown. Premium subscriptions in The Roku Channel witnessed a surge in signups, as consumers took advantage of more than 25 extended free trials. Content distribution benefited from a surge in subscription signups, movie rentals and purchases and increased device sales. Moreover, streaming hours growth is likely to boost TV streaming advertising on Roku's platform, driving advertising revenues in the near term. Shares have outperformed the industry on a year-to-date basis. However, an increase in video ad campaign cancellations or delayed starts from categories like travel, theatrical and automotive among others were an overhang. Notably, the company scrapped its 2020 guidance due to coronavirus-led uncertainties.

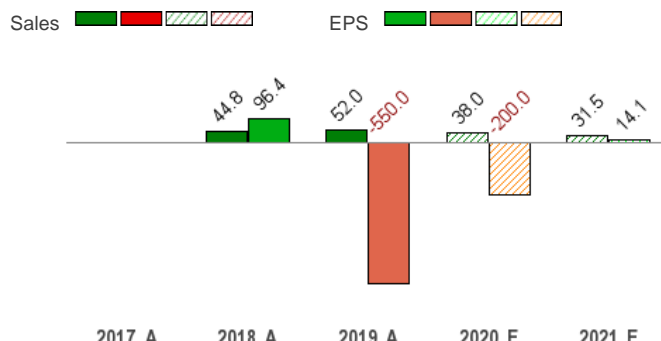
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$176.55 - \$58.22
20 Day Average Volume (sh)	7,895,432
Market Cap	\$20.5 B
YTD Price Change	22.7%
Beta	1.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Broadcast Radio and Television</a>
Zacks Industry Rank	Top 48% (120 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.4%
Last Sales Surprise	17.8%
EPS F1 Est- 4 week change	12.2%
Expected Report Date	11/04/2020
Earnings ESP	13.0%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	15.2

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	378 E	449 E	479 E	686 E	2,049 E
2020	321 A	356 A	354 E	544 E	1,558 E
2019	207 A	250 A	261 A	411 A	1,129 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.47 E	-\$0.36 E	-\$0.37 E	-\$0.19 E	-\$1.34 E
2020	-\$0.45 A	-\$0.35 A	-\$0.47 E	-\$0.21 E	-\$1.56 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 08/26/2020. The reports text is as of 08/27/2020.

## Overview

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

The company reported 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.



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## 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 14.6 billion hours of streamed content reported in second-quarter 2020. The Roku Channel reached active accounts with an estimated 43 million viewers in second-quarter 2020 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 Jun 30, 2020, cash, cash equivalents including short-term investments were \$887 million compared with \$588.3 million as of Mar 31, 2020. The improved liquidity will help Roku to meet its working capital requirements. The company's total debt of \$97.1 million as of Jun 30, 2020, which decreased from \$169.7 million as of Mar 31, 2020, should not be a bother for Roku due to its solid cash balance.

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.

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## 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 second-quarter 2020, research and development expenses (23.7% of total revenues) increased 36.1% year over year to \$84.4 million.
- ▼ International expansion and content additions resulted in cost escalations in the form of marketing expenses. Sales and marketing expenses increased 75.5% year over year to \$64.2 million in second-quarter 2020, a trend likely to continue in the rest of 2020.
- ▼ Roku has been incurring operating losses since inception and reported an operating loss of \$42.2 million for second-quarter 2020. 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 Q2 Loss Narrower Than Expected, Revenues Rise Y/Y

Roku reported second-quarter 2020 loss of 35 cents per share that was narrower than the Zacks Consensus Estimate of a loss of 55 cents. The company had reported loss of 8 cents per share in the year-ago quarter.

Revenues soared 42.4% from the year-ago quarter's level to \$356.1 million and beat the consensus mark by 17.9%.

Active accounts jumped 41% year over year to 43 million. Streaming hours increased 65% year over year to 14.6 billion. Moreover, average revenue per user (ARPU) grew 18% to \$24.92 (on a trailing 12-month basis).

#### Top-Line Details

Platform revenues (68.7% of revenues) surged 46% year over year to \$244.8 million. Premium subscriptions in The Roku Channel witnessed a surge in signups, as consumers took advantage of more than 25 extended free trials amid lockdown in the second quarter.

Per management, The Roku Channel reached households with an estimated 43 million people in the second quarter. Roku users streamed 14.6 billion hours in the second-quarter, up 65% year over year.

Moreover, content distribution benefited from a surge in subscription signups, movie rentals and purchases as well as elevated revenues from increased device sales.

The company witnessed an increase in video ad campaign cancellations or delayed starts, primarily from categories including travel, quick-serve restaurants, theatrical and automotive among others that were severely hit by stay-at-home policies.

Player revenues (31.3% of revenues) increased 35.1% from the year-ago quarter's levels to \$11.3 million. Player unit sales were up 28% year over year, owing to growth in the United States and in certain international markets.

In addition to new account growth, existing Roku users added almost three million new Roku streaming devices to their accounts during the quarter.

The company believes that Roku TV represented more than one in three smart TVs sold in the United States and one in four smart TVs sold in Canada in second-quarter 2020.

#### Operating Details

Gross margin contracted 440 basis points (bps) on a year-over-year basis to 41.2%.

Operating expenses, as a percentage of revenues, increased 330 bps from the year-ago quarter's figure to 53.1%. Growth in headcount and sales & marketing (S&M) expenses led to higher operating expenses.

S&M and general & administrative (G&A) expenses increased 340 bps and 100 bps, respectively while research & development (R&D) expenses contracted 110 bps.

In the second quarter, adjusted EBITDA declined 130.4% year over year to negative \$3.4 million.

Operating loss was \$42.2 million in the reported quarter. The company had reported an operating loss of \$10.4 million in the year-ago quarter.

#### Balance Sheet & Cash Flow

As of Jun 30, 2020, cash and cash equivalents including short-term investments were \$887 million compared with \$588.3 million, as of Mar 31, 2020.

#### Guidance Withdrawal for 2020

Roku withdrew its 2020 guidance due to the economic uncertainty stemming from the coronavirus outbreak.

Management expects overall advertising expenditure in the United States to decline in 2020. Nonetheless, ad revenues were expected to grow substantially year over year.

Notably, for 2020, the company projected revenues between \$1.58 billion and \$1.62 billion. At midpoint, revenues were expected to increase 42% year over year.

Moreover, gross profit was estimated between \$720 million and \$740 million, up 47% year over year at midpoint. Adjusted EBITDA was assumed between (\$10 million) and \$10 million.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	17.84%
EPS Surprise	36.36%
Quarterly EPS	-0.35
Annual EPS (TTM)	-1.15

## Recent News

On Jul 1, Roku announced the addition of Peloton app, Peloton Interactive's virtual fitness platform for Roku streamers. The Peloton Roku app is available in the United States from Jul 1 and in Canada from Jul 2.

On Jun 8, Roku announced the launch of a new shopper data program to make TV advertising more precise and measurable for CPG marketers. Kroger Precision Marketing (KPM) plans to join the program as the launch partner to build first-to-market targeting and attribution tools for streaming TV.

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.

## Valuation

Roku shares are up 22.7% in the year-to-date period and 12.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 21.1% while in the Zacks Consumer Discretionary sector are down 1.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 33.5% and 9.5%, respectively.

The S&P 500 index is up 8.1% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 14.02X, which compares to 9.78X for the Zacks sub-industry, 3.23X for the Zacks sector and 3.42X 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 11.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$173 price target reflects 11.45X 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	14.02	9.78	3.23	3.42
	2-Year High	20.84	13.85	3.53	3.46
	2-Year Low	4.13	6.80	2.29	2.24
	2-Year Median	11.54	9.35	3.16	3.02
P/S F12M	Current	10.9	8.86	2.47	3.81
	2-Year High	15.24	10.97	2.62	3.81
	2-Year Low	3.06	6.12	1.68	2.76
	2-Year Median	8.57	7.76	2.22	3.19
P/B TTM	Current	19.41	18.88	3.37	4.71
	2-Year High	41.82	38.51	4.4	4.71
	2-Year Low	10.96	11.81	2.22	3.03
	2-Year Median	23.02	17.54	3.49	4.02

As of 08/26/2020

## Industry Analysis Zacks Industry Rank: Top 48% (120 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Outperform	1
Amazon.com, Inc. (AMZN)	Neutral	3
Comcast Corporation (CMCSA)	Neutral	3
The Walt Disney Company (DIS)	Neutral	3
Facebook, Inc. (FB)	Neutral	2
Alphabet Inc. (GOOGL)	Neutral	3
Netflix, Inc. (NFLX)	Neutral	3
ViacomCBS Inc. (VIAC)	Neutral	3

Industry Comparison Industry: Broadcast Radio And Television				Industry Peers		
	ROKU	X Industry	S&P 500	AAPL	AMZN	GOOGL
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	D	-	-	F	A	B
Market Cap	20.49 B	482.94 M	23.69 B	2,163.86 B	1,723.99 B	1,118.28 B
# of Analysts	9	2	14	12	14	12
Dividend Yield	0.00%	0.00%	1.65%	0.65%	0.00%	0.00%
Value Score	F	-	-	F	D	C
Cash/Price	0.05	0.31	0.07	0.04	0.04	0.11
EV/EBITDA	-456.19	4.57	13.37	27.65	45.12	19.48
PEG Ratio	NA	0.67	3.04	3.67	3.57	2.25
Price/Book (P/B)	19.41	1.07	3.17	29.94	23.38	5.39
Price/Cash Flow (P/CF)	NA	3.42	12.78	33.17	51.33	23.67
P/E (F1)	NA	10.98	21.63	39.16	107.57	36.75
Price/Sales (P/S)	15.19	0.61	2.50	7.90	5.36	6.74
Earnings Yield	-0.95%	0.87%	4.44%	2.55%	0.93%	2.72%
Debt/Equity	0.09	1.32	0.75	1.30	0.45	0.02
Cash Flow (\$/share)	-0.37	1.76	6.94	15.26	67.05	69.45
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	NA%	16.93%	10.41%	10.40%	97.34%	22.11%
Proj. EPS Growth (F1/F0)	-200.42%	-27.97%	-4.92%	8.69%	39.06%	-9.00%
Curr. Cash Flow Growth	5,300.00%	-3.98%	5.22%	-3.74%	31.33%	12.62%
Hist. Cash Flow Growth (3-5 yrs)	NA%	12.95%	8.50%	7.40%	49.26%	19.91%
Current Ratio	3.09	1.83	1.34	1.47	1.18	3.41
Debt/Capital	8.33%	58.44%	44.18%	56.54%	31.00%	1.90%
Net Margin	-10.28%	-2.79%	10.25%	21.33%	4.10%	18.99%
Return on Equity	-19.43%	0.89%	14.66%	70.66%	20.47%	15.62%
Sales/Assets	0.94	0.41	0.50	0.83	1.42	0.61
Proj. Sales Growth (F1/F0)	38.03%	0.00%	-1.45%	4.67%	31.31%	7.51%
Momentum Score	A	-	-	F	A	B
Daily Price Chg	11.17%	0.00%	-0.18%	1.36%	2.85%	2.38%
1 Week Price Chg	0.19%	-2.41%	-1.45%	8.23%	4.34%	4.71%
4 Week Price Chg	8.39%	4.99%	2.10%	33.13%	13.46%	7.92%
12 Week Price Chg	58.02%	0.00%	3.61%	55.66%	38.87%	14.23%
52 Week Price Chg	12.60%	-19.68%	3.61%	146.24%	95.09%	40.08%
20 Day Average Volume	7,895,432	296,328	1,883,291	50,411,112	4,318,933	1,655,023
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	12.23%	2.85%	0.93%	4.64%	59.04%	6.37%
(F1) EPS Est 12 week change	11.36%	0.00%	3.41%	5.20%	62.03%	7.88%
(Q1) EPS Est Mthly Chg	16.02%	14.30%	0.00%	-0.85%	50.05%	7.83%

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## 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.

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### 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	C
Momentum Score	A
VGM Score	D

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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### Disclosures

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