

August 5, 2021

Price (as of close on Aug 5, 2021)

**\$403.48**

Rating  
**DROP**

Price Target  
**N/A**

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## Roku Inc. (ROKU)

We are dropping coverage on ROKU due to its fair valuation and significant coverage. Since our January 24, 2019 initiation, ROKU's price has appreciated 898%. We will now redirect our resources to more undervalued and less covered growth companies.

52-Week Range	\$58.22 – \$486.72	Total Debt	\$94.7 mil
Shares Outstanding	128.4 million	Debt/Equity	0.2%
Insider/Institutional	0.3% / 66.0%	ROE (LTM)	(1.2%)
Public Float	110.8 million	Book Value/Share	\$9.6
Market Capitalization	\$53.9 billion	Daily Volume (3 mo. Avg.)	4.6M

FYE DEC	FY 2019A	FY 2020E		FY 2021E	
EPS (\$)	ACTUAL	CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Mar	\$(0.09)A	\$(0.45)A	\$(0.45)A	\$(0.12)E	\$(0.25)E
Q2 Jun	\$(0.08)A	\$(0.35)A	\$(0.35)A	\$(0.28)E	\$(0.27)E
Q3 Sep	\$(0.22)A	\$0.09A	\$0.09A	\$0.10E	\$0.10E
Q4 Dec	\$(0.13)A	\$0.49A	\$(0.13)E	\$0.36E	\$(0.17)E
<b>Year*</b>	<b>\$(0.52)A</b>	<b>\$(0.14)A</b>	<b>\$(0.84)E</b>	<b>\$0.06E</b>	<b>\$(0.60)E</b>
P/E Ratio	NM	NM		NM	
Change	NM	-72.7%		NM	

FYE DEC	FY 2019A	FY 2020E		FY 2021E	
Revenue (\$ mil.)	ACTUAL	CURRENT	PREVIOUS	CURRENT	PREVIOUS
Q1 Mar	\$206.7A	\$320.7A	\$320.7A	\$485.2E	\$443.0E
Q2 Jun	\$250.1A	\$356.0A	\$356.0A	\$515.2E	\$488.4E
Q3 Sep	\$260.9A	\$451.6A	\$451.6A	\$656.3E	\$621.8E
Q4 Dec	\$411.2A	\$649.9A	\$604.9E	\$971.9E	\$829.7E
<b>Year*</b>	<b>\$1,128.9A</b>	<b>\$1,778.4E</b>	<b>\$1,733.4E</b>	<b>\$2,628.7E</b>	<b>\$2,383.0E</b>
Change	52.0%	57.5%		47.8%	

\* Numbers may not add up due to rounding; EPS figures are GAAP.

### Q4:20 Highlights

- Q4:20 revenues were \$649.9 million, up 58% YOY, attributable to growth across both segments – Platform (+81% YOY) and Player (+18% YOY).
- The company showed strong business momentum with 39% YOY active user growth and 55% YOY streaming hours growth. On the monetization front, the average revenue per user (ARPU) increased by 24% YOY to \$28.76 versus \$23.14 in Q4:19.
- ROKU delivered gross profit of \$305.5 million, up 89% YOY, and gross margins expanded 770 bps YOY to 47% of revenue in Q4:20.
- ROKU reported total adjusted EBITDA of \$113.5 million in Q4:20, up 650% YOY versus adjusted EBITDA of \$15.1 million in Q4:19.
- ROKU expects Q1:21 revenue midpoint of \$485 million, representing ~51% YOY growth. Management anticipates adjusted EBITDA to be \$31 million at the midpoint.
- We adjust our estimates based on the results and management's commentary. We maintain our BUY rating and increase our target price to \$506.50 (earlier \$274.50), with an implied capital appreciation potential of ~30%.

### PRIMARY RISKS

- TV streaming is highly a competitive industry with the presence of large technology players such as Amazon and Google which have far higher resources.
- The U.S.-China trade war could adversely impact business operations as the majority of ROKU's hardware is manufactured in China.

### Company Description

Roku Inc. operates as a TV streaming platform. It sells streaming video players and licenses its operating system to television manufacturers which enables consumers to watch video content over the internet. The firm provides its products and services through retailers and distributors, as well as directly to customers through its website. As of December 31, 2020, the company had 51.2 million active accounts.

Please refer to the end of this report to obtain important disclosure information.

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### **Rating Definitions**

**BUY**, 30% or greater increase in the next 12 months.

**BUY- Long-Term**, near term EPS horizon is challenging, attractive long-term appreciation potential.

**HOLD**, perform in line with the market.

**SELL**, 30% or more declines in the next 12 months.

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