

Roku, Inc.

# Delivered a strong Q on all metrics, even as the ad market sees an uneven recovery

Reiterate Rating: BUY | PO: 100.00 USD | Price: 76.70 USD

## Another strong Q, guidance commentary conservative

Roku delivered another strong quarter and beat our / Street expectations across all key metrics. Our thesis continues to play out: Roku's scale makes it an attractive platform for advertisers who will, over time, shift their dollars to connected TV (CTV). The 4Q report and 1Q guide reflect several positives: 1) Roku recently expanded retail availability of Roku-branded TVs at Costco and Amazon, 2) engagement on the platform continued to grow with streaming hours on The Roku Channel (TRC) growing 63% y/y, and streaming hours per account per day growing to 4.1 hours, 3) Roku made strong progress expanding relationships with third-party platforms, including retail media networks, demand side platforms (DSPs), and other partners, 4) the active account base reached 80mn (grew about 10mn in 2023, which is a record except for 2020 when growth was partly driven by stay-at-home as a result of the pandemic), and 5) Roku continued to expand its TV licensing program in International markets. Reiterate Buy.

## M&E weakness continues to pressure gross margins

Commentary on 1Q platform gross margins was cautious as Roku faces difficult y/y growth rate comparisons in streaming services distribution and a challenging media & entertainment (M&E) spending environment for the rest of the year. Management guided 1Q platform revenues to grow similar to F4Q. Roku guided 1Q rev of \$850mn, and gross profit of \$370mn, which are higher than our prior ests, and break-even level of adjusted EBITDA which is about in-line with our est. Mgmt. expects to deliver positive adjusted EBITDA for full year FY24.

## Relationship with Walmart remains strong

Mgmt. noted Roku continues to have a strong relationship with Walmart. A recent article in the Wall Street Journal suggest that Walmart is considering an acquisition of Vizio. In our opinion, Roku could have an opportunity to gain share at other retailers if Walmart were to purchase Vizio and limit its distribution. Roku continues to provide the operating system for Walmart's ONN brand TVs.

## Adjusting estimates; PO to \$100 (from \$114)

Our F24E rev and EPS move to \$4bn/(\$1.74) vs. our prior estimate of \$4.0bn/(\$1.84). Our PO moves to \$100 (from \$114) based on 3x (prior 4x) C24E EV/Sales. We use a slightly lower multiple on slightly lower platform margin vs. our expectations

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(3.59)	(5.02)	(1.74)	(1.59)	(0.28)
EPS Change (YoY)	NM	-39.8%	65.3%	8.6%	82.4%
Consensus EPS (Bloomberg)			(1.93)	(0.90)	(0.22)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	NM	74.8x	46.3x	23.5x
Free Cash Flow Yield*	-1.6%	1.8%	-1.6%	1.1%	-2.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

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Timestamp: 16 February 2024 09:58AM EST

16 February 2024

Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	114.00	100.00
2024E Rev (m)	3,999.3	3,999.4
2025E Rev (m)	4,620.6	4,642.2
2026E Rev (m)	NA	5,144.5
2024E EPS	-1.84	-1.74
2025E EPS	-1.69	-1.59
2026E EPS	NA	-0.28

**Ruplu Bhattacharya**

Research Analyst  
BofAS  
+1 646 855 0315  
[ruplu.bhattacharya@bofa.com](mailto:ruplu.bhattacharya@bofa.com)

**Wamsi Mohan**

Research Analyst  
BofAS  
+1 646 855 3854  
[wamsi.mohan@bofa.com](mailto:wamsi.mohan@bofa.com)

**Joseph Leeman**

Research Analyst  
BofAS  
+1 646 855 1262  
[joseph.leeman@bofa.com](mailto:joseph.leeman@bofa.com)

**Nathawan Asdornwised**

Research Analyst  
BofAS  
+1 646 855 1848  
[nathawan.asdornwised@bofa.com](mailto:nathawan.asdornwised@bofa.com)

### Stock Data

Price	76.70 USD
Price Objective	100.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	51.62 USD - 108.84 USD
Mkt Val (mn) / Shares Out	9,594 USD / 125.1 (mn)
Free Float	99.5%
Average Daily Value (mn)	423.78 USD
BofA Ticker / Exchange	ROKU / NAS
Bloomberg / Reuters	ROKU US / ROKU.OQ
ROE (2024E)	-10.6%
Net Dbt to Eqty (Dec-2023A)	-87.1%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Roku, Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-14.1%	-22.3%	-10.0%	-8.9%	-3.3%
Return on Equity	-18.3%	-28.6%	-10.6%	-9.3%	-1.5%
Operating Margin	-17.0%	-22.7%	-8.6%	-6.9%	-2.5%
Free Cash Flow	(150)	173	(154)	103	(276)

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	3.3x	1.2x	1.1x	1.3x	1.5x
Tax Rate	NM	NM	1.5%	1.5%	1.5%
Net Debt-to-Equity Ratio	-71.1%	-87.1%	-77.8%	-76.1%	-57.9%
Interest Cover	NM	NM	NA	NA	-47.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,127	3,485	3,999	4,642	5,145
% Change	13.1%	11.4%	14.8%	16.1%	10.8%
Gross Profit	1,441	1,523	1,787	2,186	2,382
% Change	2.3%	5.7%	17.4%	22.3%	9.0%
EBITDA	(84)	4	104	168	330
% Change	NM	NM	NM	61.6%	97.1%
Net Interest & Other Income	39	93	87	80	86
<b>Net Income (Adjusted)</b>	<b>(494)</b>	<b>(711)</b>	<b>(253)</b>	<b>(237)</b>	<b>(43)</b>
<b>% Change</b>	<b>NM</b>	<b>-43.8%</b>	<b>64.4%</b>	<b>6.2%</b>	<b>81.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(498)	(710)	(252)	(238)	(42)
Depreciation & Amortization	49	70	61	62	59
Change in Working Capital	(181)	21	(280)	(66)	(606)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	642	874	385	426	400
Capital Expenditure	(162)	(83)	(68)	(81)	(87)
<b>Free Cash Flow</b>	<b>-150</b>	<b>173</b>	<b>-154</b>	<b>103</b>	<b>-276</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
Share / Issue Repurchase	18	19	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(10)	(80)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,962	2,026	1,913	2,016	1,741
Trade Receivables	761	816	1,033	1,093	1,796
Other Current Assets	242	231	343	349	448
Property, Plant & Equipment	335	265	271	290	318
Other Non-Current Assets	1,113	924	924	924	924
<b>Total Assets</b>	<b>4,413</b>	<b>4,262</b>	<b>4,485</b>	<b>4,673</b>	<b>5,227</b>
Short-Term Debt	80	0	0	0	0
Other Current Liabilities	1,003	1,276	1,320	1,316	1,508
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	98	74	77	82	85
<b>Total Liabilities</b>	<b>1,766</b>	<b>1,935</b>	<b>1,984</b>	<b>1,984</b>	<b>2,180</b>
<b>Total Equity</b>	<b>2,647</b>	<b>2,326</b>	<b>2,460</b>	<b>2,648</b>	<b>3,006</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,413</b>	<b>4,262</b>	<b>4,444</b>	<b>4,632</b>	<b>5,186</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Sector

IT Hardware

## Company Description

Roku is a key player in the growing over-the-top (OTT), or video streaming services market. Through the sale of streaming players and offering the Roku TV operating system on select smart TVs, Roku offers users a way to access various applications, primarily streaming services. Roku's strategy focuses on acquiring active accounts and then monetizing them primarily through advertising revenues.

## Investment Rationale

Our Buy rating is based on 1) assumption of the scatter Ad market strengthening as the macro improves and Roku continuing to outperform given the scale of the platform and targeting capabilities, 2) new partnerships with media networks and DSPs can improve access to advertisers, 3) launch of Roku branded TVs in the U.S. and International expansion should help drive higher subscriber-growth, 4) smart home initiatives, shoppable ads can drive new revenue streams, and 4) positive EBITDA in F24

## Stock Data

Average Daily Volume 5,525,210

## Quarterly Earnings Estimates

	2023	2024
Q1	-1.38A	-0.62E
Q2	-0.76A	-0.49E
Q3	-2.33A	-0.40E
Q4	-0.55A	-0.23E

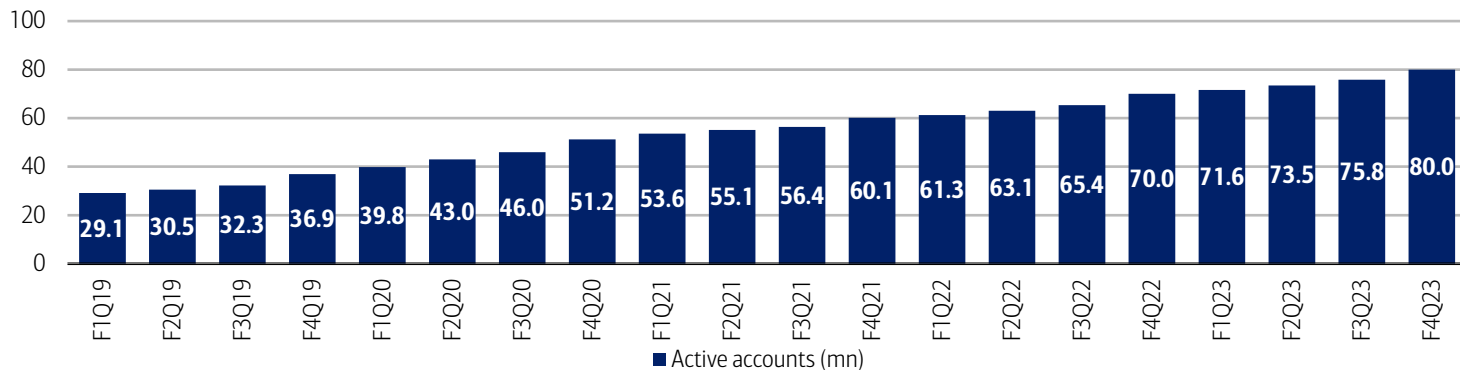
## Takeaways from the quarter

- Total revenue in 4Q was up +13.5% y/y to \$984.4mn. Platform revenues grew 13.3% y/y to \$828.9mn.
- Roku added 4.2mn incremental active accounts in 4Q to reach 80.0mn total. This was above our/Street estimates.
- On a reported basis, Platform gross margins increased +720bps q/q to 55.3%.
- Reported Device gross margins were negative in F4Q and came in at -13.2%.
- We model Device gross margins to remain negative over the next several quarters. We view the Roku Devices as loss leaders which are designed to help grow Roku's installed base. We would rather have Roku absorb the current higher component prices and shipping costs, and report lower devices gross margin, if it helps grow the installed base and perhaps helps penetrate international markets. We model Device gross margins to be -5% for C1Q.
- Streaming hours increased by 21% y/y in 4Q23 to 29.1bn. Viewing hours on traditional TV in the US fell 15% YoY to 7.5 hours per day. Global viewing hours per active account per day in 4Q were 4.1 hours, vs. 3.9 hours in the prior quarter.
- ARPU (Average Revenue Per User) on a trailing twelve-month basis declined 4% y/y to \$39.92.
- Guidance for 1Q24: Management continues to provide a single estimate for each metric instead of a range:
  - Total net revenue: \$850mn, above our/Street prior estimate of \$815mn/\$835mn
  - Total gross profit: \$370mn, implying gross margin of 43.5%
  - Adjusted EBITDA: +0mn, break-even
- Coming out of past economic downturns advertisers have returned to spending quickly, in order to support revenue growth for their companies. In 4Q23, Roku continued to see strong performance in video advertising. In our opinion, this is due to the large scale of the platform and its first party data and targeting capabilities which makes it attractive to advertisers.
- The Roku Channel (TRC) remains a top-10 TV streaming App comparable to the engagement of peers Paramount+, Peacock, and Max. In F4Q, streaming hours on TRC grew +63% y/y.
- The Roku operating system (OS) was again the No. 1 selling smart TV OS in the U.S. for fifth year in a row. In F4Q, overall TV unit sales in the U.S. were down YoY due to increased LCD panel prices leading to smaller TV price discounts for consumers. Despite the overall unit sales decline, the company saw net adds of 4.2mn. Active account base in the U.S. is bigger than the subscribers of the six largest traditional pay-tv providers combined.
- Roku faces tough y/y growth rate compares in content distribution and M&E.
- We expect Media & Entertainment (M&E) spending to remain pressured.



**Figure 1: Roku active accounts by quarter**

Active accounts reached 80.0mn in F4Q23

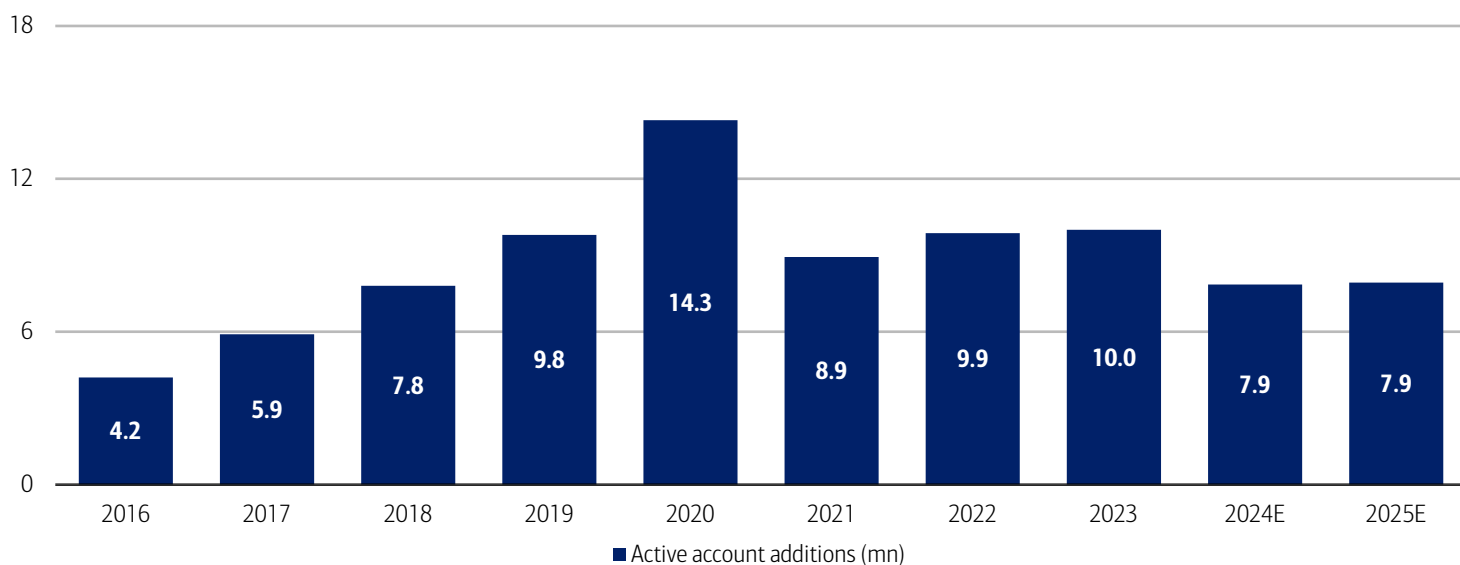


Source: Company reports, BofA Global Research estimates

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**Figure 2: Roku active account additions, by year**

We now model active accounts growing 7.9mn in 2024 to reach 87.8mn. We model growth of 7.9mn in 2025 to reach 95.8mn active accounts

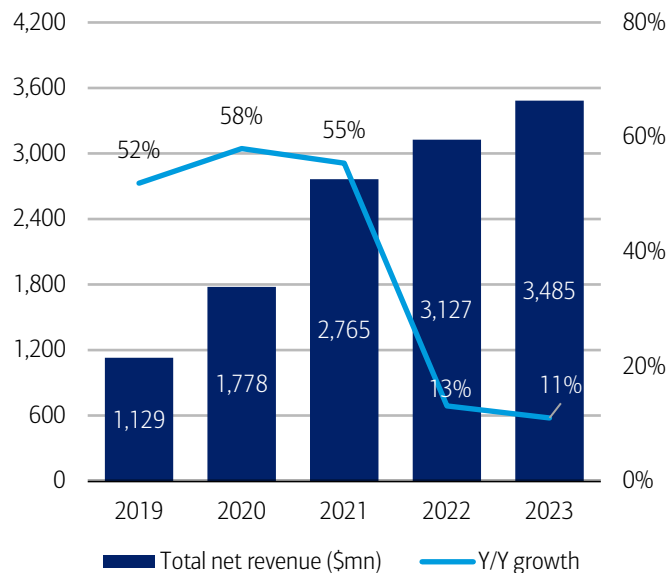


Source: Company reports, BofA Global Research estimates

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**Figure 3: Roku total net revenue and y/y growth**

This figure shows Roku's total net revenue by year.

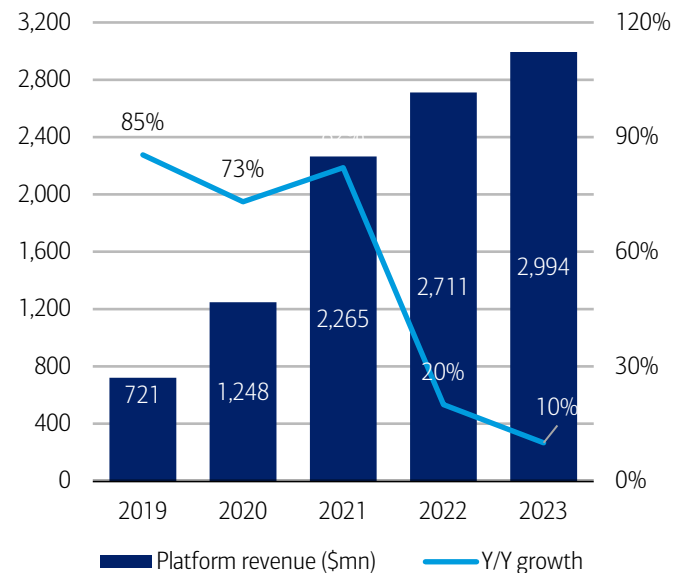


Source: Company reports, BofA Global Research estimates

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**Figure 4: Roku Platform revenue and y/y growth**

This figure shows Roku's Platform revenue by year.

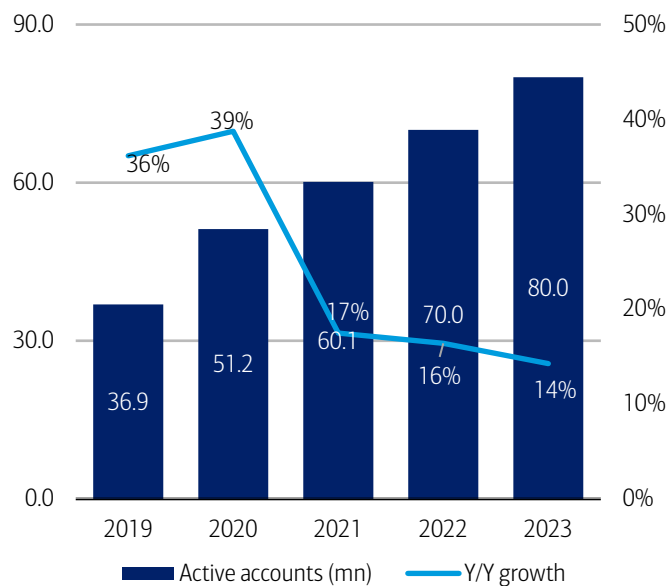


Source: Company reports, BofA Global Research estimates

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**Figure 5: Roku Active Accounts and y/y growth**

This figure shows Roku's Active Accounts by year.

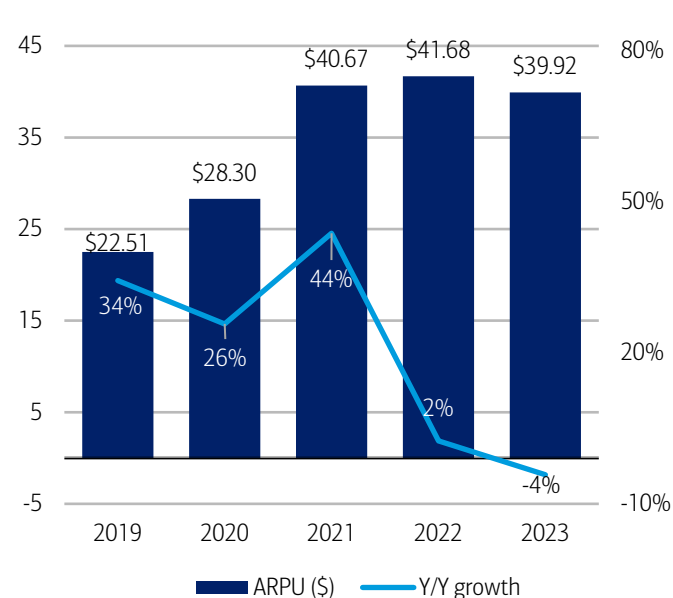


Source: Company reports, BofA Global Research estimates

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**Figure 6: Roku ARPU and y/y growth**

This figure shows Roku's ARPU and y/y growth.



Source: Company reports, BofA Global Research estimates

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# Model

**Figure 8: Roku Income Statement**

We model \$4bn of revenue and (\$1.74) in EPS for Roku in 2024E

(\$ in 000 except EPS)	2023A			2024E					2022A	2023A	2024E	2025E	2026E
	1Q23A	2Q23A	3Q23A	4Q23A	1Q24E	2Q24E	3Q24E	4Q24E					
Income Statement													
Sales	\$740,990	\$847,186	\$912,018	\$984,425	\$851,836	\$926,461	\$1,029,187	\$1,191,891	\$3,126,656	\$3,484,619	\$3,999,375	\$4,642,246	\$5,144,532
COGS	\$403,393	\$468,915	\$543,195	\$546,501	\$482,592	\$508,773	\$564,666	\$656,292	\$1,685,479	\$1,962,004	\$2,212,323	\$2,456,277	\$2,762,898
Gross Profit	\$337,597	\$378,271	\$368,823	\$437,924	\$369,244	\$417,689	\$464,521	\$535,599	\$1,441,177	\$1,522,615	\$1,787,053	\$2,185,969	\$2,381,635
R&D	\$220,085	\$192,387	\$282,201	\$183,801	\$206,144	\$222,351	\$236,713	\$226,459	\$788,913	\$878,474	\$891,667	\$998,517	\$1,059,774
S&M	\$233,919	\$227,192	\$307,694	\$264,554	\$204,441	\$213,086	\$226,421	\$262,216	\$838,419	\$1,033,359	\$906,164	\$951,660	\$1,008,328
G&A	\$96,053	\$84,652	\$128,717	\$93,737	\$68,147	\$74,117	\$82,335	\$107,270	\$344,678	\$403,159	\$331,869	\$557,070	\$442,430
Total Operating Expenses	\$550,057	\$504,231	\$718,612	\$542,092	\$478,732	\$509,554	\$545,469	\$595,945	\$1,972,010	\$2,314,992	\$2,129,700	\$2,507,247	\$2,510,532
Operating Income	(\$212,460)	(\$125,960)	(\$349,789)	(\$104,168)	(\$109,488)	(\$91,865)	(\$80,948)	(\$60,346)	(\$530,833)	(\$792,377)	(\$342,648)	(\$321,278)	(\$128,897)
Interest Expense	(\$681)	(\$4)	(\$10)	(\$35)	\$0	\$0	\$0	\$0	(\$5,161)	(\$730)	\$0	\$0	(\$2,727)
Other Income	\$23,101	\$19,999	\$22,912	\$27,665	\$19,592	\$19,456	\$21,613	\$26,222	\$43,766	\$93,677	\$86,882	\$79,847	\$88,486
Pretax Earnings	(\$190,040)	(\$105,965)	(\$326,887)	(\$76,538)	(\$89,896)	(\$72,409)	(\$59,335)	(\$34,125)	(\$492,228)	(\$699,430)	(\$255,765)	(\$241,431)	(\$43,138)
Taxes	\$3,564	\$1,630	\$3,184	\$1,753.00	(\$1,348.44)	(\$1,086.14)	(\$890.03)	(\$511.87)	\$5,722	\$10,131	(\$3,836)	(\$3,621)	(\$647)
Tax rate	-1.9%	-1.5%	-1.0%	-2.3%	1.5%	1.5%	1.5%	1.5%	-1.2%	-1.4%	1.5%	1.5%	1.5%
Net Income	(\$193,604)	(\$107,595)	(\$330,071)	(\$78,291)	(\$88,547)	(\$71,323)	(\$58,445)	(\$33,613)	(\$497,950)	(\$709,561)	(\$251,929)	(\$237,810)	(\$42,491)
Basic EPS	(\$1.38)	(\$0.76)	(\$2.33)	(\$0.55)	(\$0.62)	(\$0.49)	(\$0.40)	(\$0.23)	(\$3.59)	(\$5.02)	(\$1.74)	(\$1.59)	(\$0.28)
Diluted EPS	(\$1.38)	(\$0.76)	(\$2.33)	(\$0.55)	(\$0.62)	(\$0.49)	(\$0.40)	(\$0.23)	(\$3.59)	(\$5.02)	(\$1.74)	(\$1.59)	(\$0.28)
Basic Shares Outstanding	140,333	141,033	141,877	143,011	143,962	144,975	146,025	146,865	137,654	141,564	145,457	149,335	153,312
Diluted Shares Outstanding	140,333	141,033	141,877	143,011	143,962	144,975	146,025	146,865	137,654	141,564	145,457	149,335	153,312
Adjusted EBITDA													
Net Income	(\$193,604)	(\$107,595)	(\$330,071)	(\$78,291)	(\$88,547)	(\$71,323)	(\$58,445)	(\$33,613)	(\$497,950)	(\$709,561)	(\$251,929)	(\$237,810)	(\$42,491)
Other (Income) Expense, Net	(\$22,420)	(\$19,995)	(\$22,902)	(\$27,630)	(\$19,592)	(\$19,456)	(\$21,613)	(\$26,222)	(\$38,605)	(\$92,947)	(\$86,882)	(\$79,847)	(\$85,759)
Stock-Based Compensation	\$96,472	\$89,579	\$91,305	\$92,774	\$95,123	\$101,256	\$104,994	\$84,026	\$359,931	\$370,130	\$385,399	\$426,470	\$399,950
Depreciation and Amortization	\$15,636	\$18,545	\$18,866	\$17,400	\$14,841	\$15,159	\$15,306	\$15,605	\$48,651	\$70,447	\$60,910	\$62,348	\$59,240
Income Tax Expense	\$3,564	\$1,630	\$3,184	\$1,753	(\$1,348)	(\$1,086)	(\$890)	(\$512)	\$5,722	\$10,131	(\$3,836)	(\$3,621)	(\$647)
Adjusted EBITDA	(\$69,082)	(\$17,790)	\$43,430	\$47,737	\$476	\$24,550	\$39,352	\$39,284	(\$84,111)	\$4,295	\$103,662	\$167,540	\$330,292
Stock-Based Compensation													
Cost of Player Revenue	\$804	\$812	\$810	\$1,335	\$1,040	\$812	\$831	\$1,253	\$2,107	\$3,761	\$3,935	\$4,290	\$4,547
Cost of Platform Revenue	\$339	\$349	\$368	\$422	\$382	\$386	\$421	\$533	\$1,562	\$1,478	\$1,722	\$2,022	\$2,253
R&D	\$38,663	\$34,824	\$37,314	\$37,188	\$41,229	\$46,694	\$56,811	\$45,292	\$147,653	\$147,989	\$190,026	\$178,332	\$182,769
S&M	\$34,139	\$31,225	\$34,421	\$30,577	\$34,755	\$34,094	\$36,227	\$26,222	\$123,946	\$130,362	\$131,298	\$160,877	\$153,563
G&A	\$22,527	\$22,369	\$18,392	\$23,252	\$17,718	\$19,270	\$10,704	\$10,727	\$84,663	\$86,540	\$58,419	\$80,948	\$56,818
Stock-Based Compensation	\$96,472	\$89,579	\$91,305	\$92,774	\$95,123	\$101,256	\$104,994	\$84,026	\$359,931	\$370,130	\$385,399	\$426,470	\$399,950
SBC component as % of													
Cost of Player Revenue	0.8%	0.8%	0.6%	0.9%	0.8%	0.8%	0.6%	0.9%	0.5%	0.8%	0.8%	0.8%	0.8%
Cost of Platform Revenue	0.1%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
R&D exp	17.6%	18.1%	13.2%	20.2%	20.0%	21.0%	24.0%	20.0%	18.7%	16.8%	21.3%	17.9%	17.2%
S&M exp	14.6%	13.7%	11.2%	11.6%	17.0%	16.0%	16.0%	10.0%	14.8%	12.6%	14.5%	16.9%	15.2%
G&A exp	23.5%	26.4%	14.3%	24.8%	26.0%	26.0%	13.0%	10.0%	24.6%	21.5%	17.6%	14.5%	12.8%
As % of Sales													
Player sales	14.4%	12.2%	13.7%	15.8%	16.1%	11.2%	12.5%	12.2%	13.3%	14.1%	12.9%	12.1%	11.6%
Platform sales	85.6%	87.8%	86.3%	84.2%	83.9%	88.8%	87.5%	87.8%	86.7%	85.9%	87.1%	87.9%	88.4%
COGS %	54.4%	55.3%	59.6%	55.5%	56.7%	54.9%	54.9%	55.1%	53.9%	56.3%	55.3%	52.9%	53.7%
Gross Margin %	45.6%	44.7%	40.4%	44.5%	43.3%	45.1%	45.1%	44.9%	46.1%	43.7%	44.7%	47.1%	46.3%
R&D %	29.7%	22.7%	30.9%	18.7%	24.2%	24.0%	23.0%	19.0%	25.2%	25.2%	22.3%	21.5%	20.6%
Sales and Marketing %	31.6%	26.8%	33.7%	26.9%	24.0%	23.0%	22.0%	22.0%	26.8%	29.7%	22.7%	20.5%	19.6%
G&A %	13.0%	10.0%	14.1%	9.5%	8.0%	8.0%	8.0%	9.0%	11.0%	11.6%	8.3%	12.0%	8.6%
Operating Margin %	-28.7%	-14.9%	-38.4%	-10.6%	-12.9%	-9.9%	-7.9%	-5.1%	-17.0%	-22.7%	-8.6%	-6.9%	-2.5%
Adj. EBITDA Margin %	-9.3%	-2.1%	4.8%	4.8%	0.1%	2.6%	3.8%	3.3%	-2.7%	0.1%	2.6%	3.6%	6.4%
Interest Expense %	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.2%	0.0%	0.0%	0.0%	-0.1%
Other Income %	3.1%	2.4%	2.5%	2.8%	2.3%	2.1%	2.1%	2.2%	1.4%	2.7%	2.2%	1.7%	1.7%
Pretax Margin %	-25.6%	-12.5%	-35.8%	-7.8%	-10.6%	-7.8%	-5.8%	-2.9%	-15.7%	-20.1%	-6.4%	-5.2%	-0.8%
Taxes %	0.5%	0.2%	0.3%	0.2%	-0.2%	-0.1%	-0.1%	0.0%	0.2%	0.3%	-0.1%	-0.1%	0.0%
Net Margin %	-26.1%	-12.7%	-36.2%	-8.0%	-10.4%	-7.7%	-5.7%	-2.8%	-15.9%	-20.4%	-6.3%	-5.1%	-0.8%

Source: Company reports, BofA Global Research estimates

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**Figure 9: Roku segment details**

We model \$515mn of Devices revenue and about \$3.5bn of Platform revenue for Roku in 2024E

(\$ in 000 except EPS)

	2023A				2024E								
	1Q23A	2Q23A	3Q23A	4Q23A	1Q24E	2Q24E	3Q24E	4Q24E	2022A	2023A	2024E	2025E	2026E
<b>Revenue Breakdown</b>													
<b>Devices Segment</b>													
<b>Sales</b>	\$106,372	\$103,351	\$125,233	\$155,558	\$137,560	\$103,341	\$128,489	\$145,976	\$415,195	\$490,514	\$515,365	\$561,748	\$595,453
YoY change	18.2%	8.6%	32.9%	14.6%	29.3%	0.0%	2.6%	-6.2%	-13.4%	18.1%	5.1%	9.0%	6.0%
% of total sales	14.4%	12.2%	13.7%	15.8%	16.1%	11.2%	12.5%	12.2%	13.3%	14.1%	12.9%	12.1%	11.6%
<b>COGS</b>	\$102,806	\$120,905	\$134,641	\$176,106	\$144,025	\$113,675	\$141,338	\$175,171	\$505,800	\$534,458	\$574,209	\$589,463	\$624,831
YoY change	-0.3%	5.9%	23.4%	-1.8%	40.1%	-6.0%	5.0%	-0.5%	-4.9%	5.7%	7.4%	2.7%	6.0%
% of player sales	96.6%	117.0%	107.5%	113.2%	104.7%	110.0%	110.0%	120.0%	121.8%	109.0%	111.4%	104.9%	104.9%
<b>Gross Profit</b>	\$3,566	(\$17,554)	(\$9,408)	(\$20,548)	(\$6,465)	(\$10,334)	(\$12,849)	(\$29,195)	(\$90,605)	(\$43,944)	(\$58,843)	(\$27,714)	(\$29,377)
YoY change	-127.2%	-7.6%	-36.9%	-52.9%	-281.3%	-41.1%	36.6%	42.1%	72.9%	-51.5%	33.9%	-52.9%	6.0%
Gross Margin	3.4%	-17.0%	-7.5%	-13.2%	-4.7%	-10.0%	-10.0%	-20.0%					
<b>YoY growth components</b>													
Player rev y/y growth	\$16,372	\$8,151	\$31,033	\$19,763	\$31,188	(\$10)	\$3,256	(\$9,582)	(\$64,464)	\$75,319	\$24,851	\$46,383	\$33,705
Player rev y/y growth %	18.2%	8.6%	32.9%	14.6%	29.3%	0.0%	2.6%	-6.2%	-13.4%	18.1%	5.1%	9.0%	6.0%
Volume y/y growth %	0%	0%	-20%	-25%	6%	1%	8%	2%	-14.5%	-13.7%	3.9%	9.0%	6.0%
ASP y/y growth %	18%	9%	66%	53%	22%	-1%	-5%	-8%	1.2%	36.8%	1.1%	0.0%	0.0%
<b>Vol/ASP breakdown</b>													
Player Volume	2,693	2,547	2,129	3,625	2,854	2,572	2,299	3,697	12,734	10,993	11,423	12,451	13,198
ASP	\$40	\$41	\$59	\$43	\$48	\$40	\$56	\$39	\$33	\$45	\$45	\$45	\$45
Implied rev	\$106,372	\$103,351	\$125,233	\$155,558	\$137,560	\$103,341	\$128,489	\$145,976	\$415,195	\$490,514	\$515,365	\$561,748	\$595,453
<b>Active accounts</b>													
Active accounts (in 000s)	71,615	73,477	75,810	79,989	81,079	82,810	84,482	87,843	70,013	79,989	87,843	95,767	102,966
Net q/q adds in active accounts (in 000s)	1,602	1,862	2,333	4,179	1,090	1,731	1,672	3,361	9,864	9,977	7,854	7,924	7,199
<b>Active accounts growth drivers</b>													
Streaming players sales	2,693	2,547	2,129	3,625	2,854	2,572	2,299	3,697	12,734	10,993	11,423	12,451	13,198
Conversion to active account adds	21%	29%	40%	44%	21%	37%	40%	50%	32%	34%	38%	35%	30%
Streaming players adds to active accounts	565	726	852	1,595	599	952	920	1,849	4,071	3,738	4,320	4,358	3,960
Licensing partner relationships adding to active accts	1,037	1,136	1,482	2,585	490	779	752	1,513	5,794	6,239	3,534	3,566	3,240
<b>Active accounts growth drivers %</b>													
Streaming players adds %	35%	39%	36%	38%	55%	55%	55%	55%	41%	37%	55%	55%	55%
Licensing partner relationships	65%	61%	64%	62%	45%	45%	45%	45%	59%	63%	45%	45%	45%
<b>Platform Segment</b>													
<b>Sales (in \$000)</b>	\$634,618	\$743,835	\$786,785	\$828,867	\$714,276	\$823,120	\$900,698	\$1,045,915	\$2,711,461	\$2,994,105	\$3,484,010	\$4,080,498	\$4,549,079
YoY change	-1.4%	11.1%	17.9%	13.3%	12.6%	10.7%	14.5%	26.2%	18.7%	10.4%	16.4%	17.1%	11.5%
% of total sales	85.6%	87.8%	86.3%	84.2%	83.9%	88.8%	87.5%	87.8%	86.7%	85.9%	87.1%	87.9%	88.4%
Seasonality	21.2%	24.8%	26.3%	27.7%	20.5%	23.6%	25.9%	30.0%					
<b>COGS</b>	\$300,587	\$348,010	\$408,554	\$370,395	\$338,567	\$395,098	\$423,328	\$481,121	\$1,179,679	\$1,427,546	\$1,638,114	\$1,866,814	\$2,138,067
YoY change	13.1%	17.9%	38.3%	14.6%	12.6%	13.5%	3.6%	29.9%	43.2%	21.0%	14.8%	14.0%	14.5%
% of total sales	47.4%	46.8%	51.9%	44.7%	47.4%	48.0%	47.0%	46.0%	43.5%	47.7%	47.0%	45.7%	47.0%
<b>Gross Profit</b>	\$334,031	\$395,825	\$378,231	\$458,472	\$375,709	\$428,023	\$477,370	\$564,794	\$1,531,782	\$1,566,559	\$1,845,896	\$2,213,683	\$2,411,012
YoY change	-11.6%	5.8%	1.8%	12.4%	12.5%	8.1%	26.2%	23.2%	4.8%	2.3%	17.8%	19.9%	8.9%
Gross Margin	52.6%	53.2%	48.1%	55.3%	52.6%	52.0%	53.0%	54.0%	56.5%	52.3%	53.0%	54.3%	53.0%
<b>Key Performance Indicators</b>													
<b>Hours streamed (in mn)</b>	25,139	25,088	26,663	29,058	29,678	30,682	31,817	32,933	87,475	105,949	125,110	141,309	156,613
<b>Active accounts (in 000s)</b>	71,615	73,477	75,810	79,989	81,079	82,810	84,482	87,843	70,013	79,989	87,843	95,767	102,966
<b>ARPU for the preceding four fiscal quarters</b>	\$40.67	\$40.67	\$41.03	\$39.92	\$40.26	\$40.35	\$40.76	\$41.52	\$41.66	\$39.92	\$41.52	\$44.45	\$45.78
<b>YoY growth</b>													
Hours streamed (in mn)	20.0%	21.0%	22.0%	21.4%	18.1%	22.3%	19.3%	13.3%	19.3%	21.1%	18.1%	12.9%	10.8%
Active accounts (in 000s)	16.9%	16.5%	16.0%	14.3%	13.2%	12.7%	11.4%	9.8%	16.4%	14.3%	9.8%	9.0%	7.5%
ARPU for the preceding four fiscal quarters	-5.1%	-7.5%	-6.9%	-4.2%	-1.0%	-0.8%	-0.7%	4.0%	1.5%	-4.2%	4.0%	7.1%	3.0%
Hours streamed per active account	2.9%	3.7%	5.0%	5.5%	3.8%	8.3%	6.5%	2.5%	3.3%	4.3%	5.2%	2.4%	2.4%
<b>YoY growth components</b>													
Platform revenue YoY growth	(\$9,082)	\$74,535	\$119,585	\$97,606	\$79,658	\$79,285	\$113,913	\$217,048	\$426,536	\$282,644	\$489,905	\$596,488	\$468,582
Advertising and content distribution													
License arrangements fees													
<b>Hours streamed breakdown</b>													
Hours streamed per active account	355.0	345.8	357.2	373.0	368.5	374.4	380.4	382.2	1,372.4	1,431.1	1,505.5	1,542.0	1,578.5
y/y % growth	2.9%	3.7%	5.0%	5.5%	3.8%	8.3%	6.5%	2.5%	3.3%	4.3%	5.2%	2.4%	2.4%
Days in quarter	90	91	92	92	90	91	92	92	365	365	365	365	365
Hours streamed per day per account	3.9	3.8	3.9	4.1	4.1	4.1	4.1	4.2	3.8	3.9	4.1	4.2	4.3
Revenue per hour streamed	\$0.025	\$0.030	\$0.030	\$0.029	\$0.024	\$0.027	\$0.028	\$0.032	\$31.0	\$28.3	\$27.8	\$28.9	\$29.0
Revenue per active account	\$8.9	\$10.1	\$10.4	\$10.4	\$8.8	\$9.9	\$10.7	\$11.9	\$38.7	\$37.4	\$39.7	\$42.6	\$44.2

Source: Company reports, BofA Global Research estimates

## Price objective basis & risk

### Roku, Inc. (ROKU)

Our \$100 price objective is based on 3x EV/our 2024 revenue estimate, which is lower than the median 7x of long-term range 2-16x. We believe this multiple is justified as it balances near-term supply chain and advertising related headwinds against long-term secular shift of advertising dollars from linear TV to connected TV. We compare Roku's valuation to peers and other high revenue growth companies that are trading at a similar multiple, or higher. Roku continues to execute strong and while the scatter ad market remains weak in the near-term, Roku continues to outpace the market given its scale which makes it attractive to advertisers. In the long-term, we expect Roku revenues to benefit from active account growth driven by geographic expansion into international markets, and increasing content.

Upside risks to our PO: a quicker-than-expected recovery in the macro and advertisers resuming spending more quickly than expected, faster than expected adoption of the new Roku branded TVs and smart home products, and active account growth faster than expected driven by International expansion.

Downside risks to our PO: a more protracted recession, if viewership were to shift away from ad supported content, protracted inflation which can keep TV prices high, lower viewership hours as lockdowns abate and people return to work/school, competition in streaming devices and smart TVs, TV OEM partners shifting away from the Roku TV OS or demanding revenue share agreements.

## Analyst Certification

I, Ruplu Bhattacharya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amphenol	APH	APH US	Wamsi Mohan
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc.	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Super Micro Computer Inc.	SMCI	SMCI US	Ruplu Bhattacharya
	TD Synnex Corp.	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
<b>NEUTRAL</b>				
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp.	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan



## US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
<b>UNDERPERFORM</b>				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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**iQdatabase<sup>®</sup>** is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

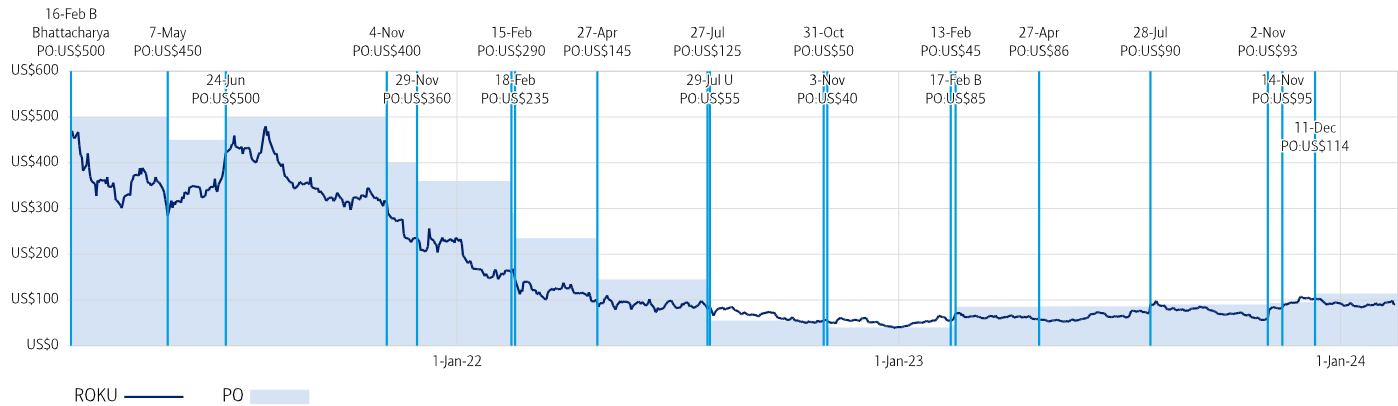
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# Disclosures

## Important Disclosures

### Roku, Inc. (ROKU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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