

**ROKU**

**ROKU, Inc.**

**INVEST/STAY CONNECTED**

INITIAL REPORT August 26, 2022

LAST UPDATED August 26, 2022

Common shares \$68.32 No Recommendation

Roku, Inc. (ROKU) is a hardware and software digital media service that offers access to streaming media content through Roku brand connectible television devices (CTV) or as an embedded component in televisions. The company is the clear dominant CTV device leader in North America with around a 50% market share. Samsung and Apple are tied for second with around 15% each. In a sense Roku is a MVPD (Multichannel Video Programming Distributor) similar to traditional cable companies. The majority of their revenue is derived from carriage agreements or contracts relating to retransmission of content. Roku offers the Roku Channel, with movies and TV shows, original content, live linear television channels, and more than 50 premium subscription channels such as such as Amazon, Disney+, Discovery+, HBO Max, Hulu, Paramount+, Peacock, Netflix, and YouTube.

Roku was founded by current CEO, Anthony Wood in 2002. Previously Wood founded ReplayTV, a DVR player similar to TiVo. In 2007 Roku began working with Netflix on a set-top box to stream Netflix content to televisions. The company was spun off in 2008 with Roku retaining the hardware and software technology. Since going public in 2017, Roku has grown revenues to close to \$3 billion. As of June 2022, Roku had 63.1 million subscribers or active accounts. As stated: "Our business model is to grow gross profit by increasing the number of active accounts and growing average revenue per user, or ARPU." Since 2017 ARPU has grown from \$10 per year to \$44 per year.

Recently, in the second quarter of 2022, due to several factors the company experienced a drop in operating income and EBITDA. Operating income margin dropped from positive 10.6% in Q2 2021 to negative 14% in Q2 2022. A major portion of this was due to an increase in stock compensation and content costs. Roku also missed its 2<sup>nd</sup> quarter revenue forecast by about \$40 million. The company cited: a significant slowdown in TV advertising spend." In response Roku plans to reduce the growth in operating expense.

Although Roku has a strong growth history and strategic value, the near-term challenges outweigh the positives. In addition, we predict that Roku will not return to positive EPS and operating income until 2024, making it difficult to value. On a positive note, the company is trading at close to a \$130 per subscriber valuation, which we consider normal.

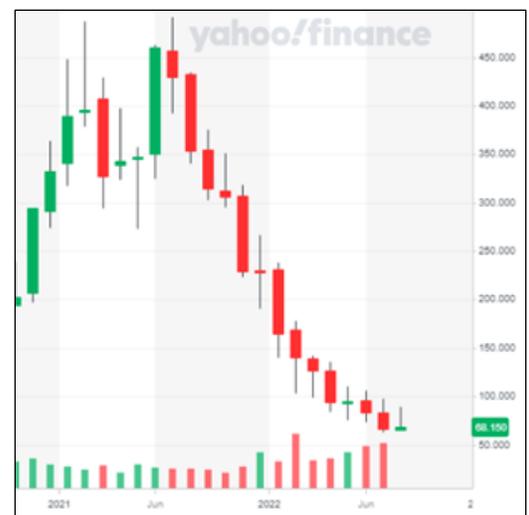
**2022 PROJECTIONS MM**

Revenue	3,152
Gross Profit	1,481
Operating Income	-228
EPS	-\$1.17
Active Accounts mm	65
EBITDA	67
Capitalized Expense	60
Cash Flow After Capex	62
Streaming Hours (2 <sup>nd</sup> Q)	20.7 billion
<b>Dividends per share</b>	<b>0</b>
Cash 6/30	2,050
Enterprise Value (gross)	10,107
EV/EBITDA	150.3 X
Revenue Growth	14%
Cash Flow Yield Vs. Equity	.6%

**EV/EBITDA 150.3 X**

[Roku Investor Page](#)

Monthly chart Jan 2021 to present



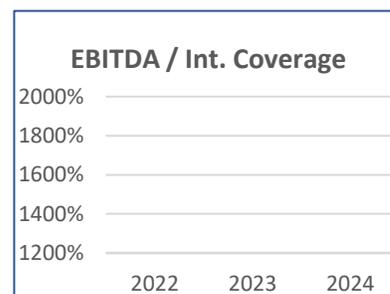
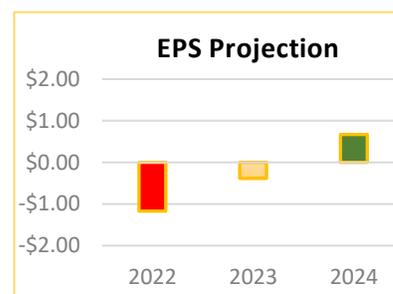
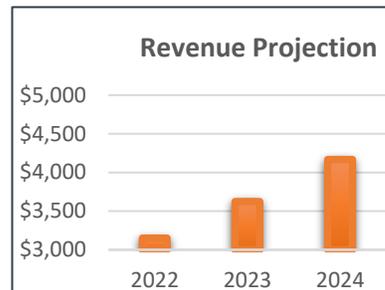
## BROXTON CAPITAL ADVISORS Roku, Inc. as of 6/30/2022

Friday, August 26, 2022

share price	\$68.32		
<b>PROJECTIONS IN MM</b>			
	2022	2023	2024
<b>Income Statement</b>			
Revenue	\$3,152	\$3,624	\$4,168
Gross Profit	\$1,481	\$1,703	\$1,959
Operating Income	-\$228	-\$75	\$131
Pre-Tax Income	-\$228	-\$75	\$130
Net Income	-\$173	-\$57	\$99
EPS	-\$1.17	-\$0.39	\$0.67
Revenue growth	14%	15%	15%
EBITDA	\$67	\$220	\$426
Interest	\$0	-\$4	-\$4
Capitalized Expense	\$60	\$60	\$60
Cash Flow	\$62	\$178	\$334
Equity Dividends	\$0	\$0	\$0
Cash Flow Dividend Coverage	NA	NA	NA
Retained Cash Flow	\$62	\$178	\$334
Retained Cash Flow Sum	\$62	\$240	\$574
Revenue Growth	14%	15%	15%
<b>Valuations</b>			
Cash Flow Yield Vs. Equity	0.6%	1.8%	3.3%
EV/EBITDA	150.26	45.90	23.74
P.E Ratio	-58.34	-177.31	101.91
Enterprise Value	\$10,107		
Total Debt	\$0		
Equity Market Cap	\$10,107	\$10,107	\$10,107
<b>Debt Ratios</b>			
EBITDA/Interest Coverage ratio	NA	NA	NA
Debt/EBITDA	NA	NA	NA
<b>Liquidity</b>			
Cash	\$2,050		
Borrowing Availability est.	\$350		
Total Current Assets	\$2,962		
Total Current Liabilities	\$824		
Current Ratio	359%		
<b>Debt</b>			
Borrowings	\$0		
Total	\$0		

### NOTES:

NA: Not Applicable



## **Disclosures**

Price target reduced from 98 to 70 and rating reduced from buy to hold on March 13. Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. 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On request we provide a list of all investment recommendations made by the firm over the last twelve months. Also, from time-to-time we may also discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

Broxton Capital Advisors 151 Calle San Francisco  
San Juan PR, 00901 [broxtoncapital.com](http://broxtoncapital.com)  
310-208-2191

Allen Cooke Portfolio Manager 310-208-2151  
Cell 310-279-3338 [allen@broxtoncapital.com](mailto:allen@broxtoncapital.com)

Brian Stead Manager 310-208-2151  
[byron@broxtoncapital.co](mailto:byron@broxtoncapital.co)

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