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VERTICAL

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Roku On Track for Post-Upfront Scatter Dollars

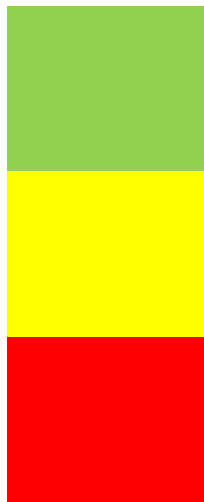
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Television buyers expect to begin experimental spending on Roku inventory, starting in 4Q18, with small testing budgets shifting from broadcast TV to The Roku Channel.

* Directly purchased inventory on the Roku Channel expected to attract CPMs in excess of \$40, but TV buyers say they will not buy ads on third-party channels through Roku's ad network for now

* TV Buyers project initial Roku experiments will represent less than 1% of total television budgets; digital buyers still purchasing vast majority of Roku ad inventory.

* Improved inventory measurement, high content quality cited as primary spend drivers; limited total viewership, while growing, remains a long-term hurdle to budget growth

Roku Channel: High Prices for Quality Inventory, Targeting

Three television buyer sources out of five interviewed said they will buy inventory on The Roku Channel directly from Roku in 4Q18, confirming pre-upfront intentions to begin spending on the platform. "We have been talking to Roku for over a year, and the recent ratings hit on broadcast means now's the time to find real alternatives," said a source. "We've been impressed with Roku's sophisticated measurement; we feel it's going to have a good yield for our brands," said another.

Sources said that, due to the quality of the programming and Roku's substantially superior targeting abilities vis-a-vis broadcast and cable television, prices are expected to eclipse median cable scatter prices by a wide range, and low-CPM remnant inventory will not likely exist on the platform. "Roku isn't forced to stream all the time like a cable channel; its ads are served only when someone's watching. So, they don't need to drop prices," said a source, adding that they are confident an ad served will actually be

viewed by an audience.

Due to the addressability of ad inventory on the platform and its multi-dimensional targeting, Roku will likely command CPMs above \$40 for almost all inventory sold, according to sources' estimates.

Although sources are impressed with Roku's targeting and the quality of inventory on The Roku Channel, sources also said they are not confident at all in the quality of inventory sold in Roku's ad network that will appear across third-party streaming services. Sources insisted that they will likely never purchase such inventory, no matter how cheap, while affirming that this inventory will not be purchased during initial tests later this year.

Initial Budgets Experimental

Despite concrete plans to begin experimenting on the platform, sources said total dollars spent in 4Q18 will represent effectively a rounding error of total television spending, and growth may be limited relative to total demand due to very limited inventory. "You can't replace losing around 800,000 people per primetime show per night with a service that has less than 20 million users that's barely growing," said a source.

Sources also noted that Roku's lack of content was driving them to spend more aggressively on other OTT alternatives, including CBS All Access, The Walt Disney Corporation's upcoming streaming services, and Hulu, which sources said continued to improve in terms of ad performance and content quality thanks to growing investment from Fox. Sources also said Disney's planned Fox acquisition would likely improve ad quality on the streaming platform even more. "Disney will be able to bet on the direct-to-consumer model while learning from Hulu, likely making both work synergistically. The only concern is that they'll have more pricing power, so ads will cost more for us," said a source.

Bright Outlook for Pricing Though Lack of Scale Could Limit Growth

When asked how much of total budgets could they see being spent on Roku in 5 years, sources demurred, with some suggesting that total spend on Roku would likely fail to represent more than 1%-2% of total t.v. spending ever, unless the company's integration into Smart TVs effectively helped its userbase grow significantly faster than what is currently being observed.

While scale remains a perennial concern with Roku, sources said Roku had several fundamental advantages to television that could help it command a price premium indefinitely, at least in theory. "Roku has more data on users, and if they partner with Google or Facebook in the future, they'd have all the data. So, I could see Roku maintaining a huge price premium, and even having prices defy gravity, for a very long time," said a source.

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