

April 2, 2020



VERTICAL

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ROKU: Limited Effect from Advertiser Pullbacks So Far

ROKU

AMZN, CMCSA, DIS, NFLX VIAC

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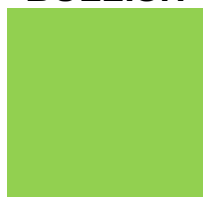
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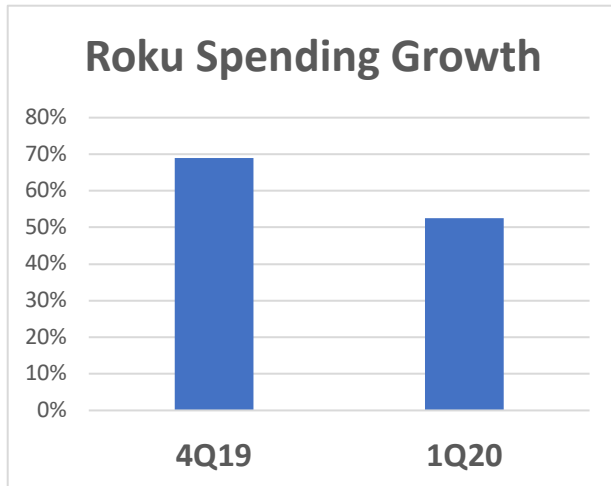
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A strong start to 1Q20 helped offset advertiser pullbacks in Roku ad network auctions in February and March, helping yy spending rise 50%-55% on average among advertiser sources, but 2Q20 could see a greater pullback.

- Roku saw yy spending growth of 50%-55% in 1Q20, a decline from 67%-72% yy in 4Q20 that exceeded source expectations as a result of a small pullback in February and March.
- Sources said that, despite that pullback, Roku has fared better than linear TV thanks to its limited exposure to sports and user engagement growth that remained as strong in 1Q20 as in 4Q19.
- Recent concerns of Roku ad inventory quality have fallen out of focus as TV buyers focus on post-coronavirus spending strategies.

Relative Spending Growth Strength

Sources saw total spending rise 50%-55% yy in 1Q20, only slightly below initial expectations for the quarter at the beginning of January, as sources said OTT spending was unevenly impacted by lower sports avails.



Source: Vertical Market Intelligence, averages, 6 sources, 2020

"Roku is not dependent on NBA viewing and has a lot of inventory that some verticals, such as gaming and CPG, are more interested in. I think that is helping them weather the Covid storm," said a source. "We have seen brands pull back on spending everywhere, but the pullback was less severe for Roku because initial investments were relatively small and it's still just an experiment," said another.

Roku Less Impacted than Linear TV

Source expectations for 2Q20 spending vary wildly, with some believing that prolonged significant consumer slowdown is going to drag budgets down everywhere, while others say a flight to low-quality inventory in some verticals such as ecommerce could help bolster spending on Roku in the near term. "Everyone is hurting right now, but Roku seems less at risk than broadcast because of the drop-off in high value sports inventory there," said a source.

Sources broadly agreed that a combination of vertical exposure, lower pricing, and less investment from TV buyers has helped isolate Roku from the setbacks of cancelled sports events on brand spending, and some sources believe that the dynamic could drive TV buyers to pivot more quickly to Roku in late 2020. "Before NBA gets back on the air and brands go back to spending on TV, they're going to have already done much more due diligence on alternatives like Roku. Considering it got less than 3% of TV budgets before this started, there is a lot of potential upside for them," said a source.

A Change in Focus to Avails

Sources also said the coronavirus pandemic and its impact on overall video spending has already begun to change advertisers' focus on Roku, with a shift from inventory quality concerns towards inventory availability. "Avails are going to rule supreme when advertisers come back. A lot of the postponed inventory has already been guaranteed, so when sports come back online and offset other programming that would have been bought by advertisers, there's going to be a huge hunt for any avails you can get. TV buyers will be forced to buy elsewhere, so it makes sense to prepare yourself for alternatives like Roku before that happens," said a source.

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