

## Citron Changes our Position on (NASDAQ: ROKU)



On November 29, 2017, just weeks after its IPO priced at \$14 ROKU traded as high as \$50. Citron tweeted that the stock price had become a joke and will trade back to \$28.

Sure enough ROKU traded back to \$29 (can't be perfect) and has subsequently bounced.

### **BUT NOW EVERYTHING HAS CHANGED, AND IT IS TIME TO REEVALUATE.**

The OTT movement has become a megatrend that cannot be ignored and the numbers around ROKU have completely changed since our November 29 tweet that has made us cover our short and actually go LONG ROKU (NASDAQ: ROKU).

Let's Evaluate:

1. ROKU is trading at the largest discount ever to OTT peers despite being the only OTT pure play that generates ad revenue.
  - Below is a chart of EV/Sales for NFLX, ROKU, and we put in TTD, which has emerged as a major OTT ad exchange platform. You can see where it was at the end of November on EV/Sales compared to NFLX and TTD compared to today. It has gone from the most expensive to by far the cheapest.



The secular bull thesis on OTT streaming has resulted in multiple expansion for OTT stocks and ROKU seems to have a way to run.

On CY2018 EV/Sales, NFLX trades @ 10x vs. TTD @ 8x vs. ROKU @ 5x.

Despite the disparity in metrics, ROKU short interest is 4x that of NFLX. Shorts have to know when they overstay their welcome.

2. Since our November tweet of ROKU, the walled gardens of Facebook and Google have come under fire and attention is being paid to programmatic OTT advertising. Considering US advertisers spend about \$70 billion a year on traditional TV ads vs. ROKU platform revenue (i.e., ad revenue) was only \$225 million in 2017, the TAM and validation is too large to ignore.
3. Re-evaluating Disney's acquisition of DTC streaming service BAMTech with ROKU's current subscriber base implies that ROKU could be worth about 3x its current value.
  - Disney's most recent investment valued BAMTech at \$3.8 billion or a valuation of over \$500 per paid subscriber.
  - ROKU has about 21 million active accounts. Based on BAMTech's valuation, ROKU should have an enterprise value of \$10-11 billion vs. \$3.5 billion today.

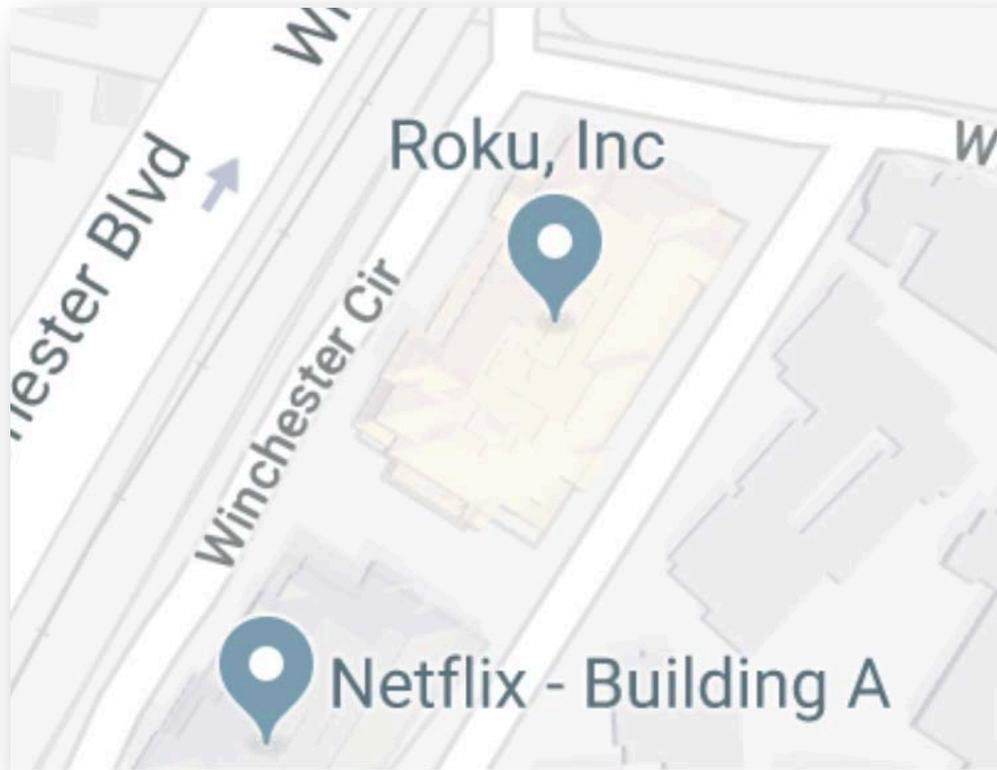
<https://www.thewaltdisneycompany.com/walt-disney-company-acquire-majority-ownership-bamtech/>

<https://www.foxbusiness.com/markets/what-netflix-shareholders-should-know-about-bamtech>

4. The move in NFLX share price since November (NFLX was \$199 Nov 28) has forced Citron to reevaluate this metric.
  - NFLX has about 119 million paid memberships globally and an enterprise value of \$156 billion vs. ROKU with about 21 million active accounts and an EV of \$3.5 billion.
  - In other words, NFLX is valued at over \$1,300 per paid subscriber vs. ROKU at about \$160-\$170 per active account.

### Takeout Risk

5. With the recent surge in NFLX stock, NFLX could look towards advertising to generate new revenue and could easily acquire ROKU.
  - NFLX generates zero ad revenue and a ROKU acquisition would give NFLX access to this revenue channel.
  - There is a pre-existing relationship between senior management at NFLX and ROKU. Founder/CEO of ROKU was previously a senior executive at NFLX. Two former senior NFLX executives (e.g., Chief Product Officer and VP of Content) are board members at ROKU.
  - ROKU's headquarters is neighbors with NFLX's headquarters.



6. The market is still paying up for growth stories across all sectors.
  - If ROKU were viewed as a cable provider, it would be the 3<sup>rd</sup> largest cable provider in the US behind just Comcast and AT&T
  - Number of active accounts for ROKU grew 47% YoY last quarter while Comcast and AT&T were essentially flat.
  
7. Lastly, when Citron tweeted on ROKU, it was only 6 weeks after an IPO priced at \$14 and the stock was trading at \$50. We wanted to see who sold and who bought. It is 6 months later and ROKU's top 10 shareholders include names greatly respected by Citron including: Point72, Melvin Capital, and Tiger Global.

The move to cutting the cord and OTT advertising is real and it is a megatrend that Citron not only does not want to be short, but at this valuation I want to be long... What a difference 6 months makes.

### **Cautious Investing to All**