

Introduction to Roku

Many of you may be new to Roku, so in our first shareholder letter we provided a brief introduction of our business as well as answers to some common questions.

Roku pioneered streaming to the TV. Roku connects users to content they love, enables content providers to build and monetize large audiences, and provides advertisers with unique capabilities to engage consumers. We do this at scale today.

We believe that all TV and TV ads will be streamed. When the internet disrupts large existing businesses, the opportunity exists to create a new large-scale platform. That is what Roku is – the leading platform for streaming TV in the U.S.

Although many of you are probably familiar with our consumer facing presence of streaming players, streaming sticks, and Roku TV models, you may be less familiar with our business model. The majority of Roku's gross profit and growth comes from our platform segment. As the method of content and advertising distribution shifts from legacy video distributors to OTT platforms, Roku is building large revenue streams on TV advertising, audience development and content distribution. We believe we are at the beginning of a tectonic shift in TV advertising, where a portion of the roughly \$70 billion in TV advertising today is now moving to TV streaming.

One reason we compete so effectively is our purpose-built TV OS. Operating systems typically don't make the transition from one type of device to another. For example, mainframe operating systems did not transition to PCs, instead Microsoft Windows became the OS for PCs. Windows did not make the transition to phones as Android and iOS became the operating systems for phones. Android and iOS have not replicated their position with mobile phones to TVs. Roku is the leading licensed OS for TVs. Roku is purpose-built for TV, which gives us an advantage because we can run an intuitive platform on low-cost hardware and provide a better user experience to consumers and licensing partners that is less expensive than our competitors.

As the leading streaming platform in the US, we connect and deliver value to all key participants in the OTT ecosystem: users, advertisers and content publishers, in addition to retailers, operators, and TV brands.

Some commonly asked questions about Roku:

Roku is the #1 streaming platform in the USA. How do you measure that?

We have a highly engaged user base that streams a lot of hours on their players and Roku TVs. Our focus is on engagement of our user base and market share of streaming hours. One source we have referenced is Nielsen which has looked at viewing share across the major streaming players in March 2017, and our players captured nearly half of all streaming hours among the top four streaming devices.

I thought Roku was a “hardware company”. How does Roku make money?

Most of Roku’s gross profit and gross profit growth comes from our Platform business which consists primarily of advertising, audience development, and content distribution related services. We measure the progress of our Platform business based on ARPU (average revenue per user) which is a function of platform revenue growth and active account growth over a period – since platform revenue is essentially ARPU multiplied by Active Accounts. One way we build active accounts is by selling streaming players. This hardware revenue shows up in our Player Segment. But unlike a hardware company that would normally try to maintain higher ASPs and hardware gross margin, we strategically pass along player cost savings to consumers by actively driving down prices to grow active accounts.

How does Roku build scale of Active Accounts?

We drive active account growth primarily by (a) licensing our TV reference design and our operating system to TV manufacturers, and (b) selling players. Roku TVs are manufactured and sold by our TV brand licensees who use our operating system, the Roku OS, and leverage our smart TV hardware reference design. One in five Smart TVs sold in the US in 2017 were Roku TVs. Our Roku TV program is our fastest growing source of new accounts.

We have been competing with many of the largest technology companies in the world for many years, and decided early on that we would not be able to compete successfully by outspending them on advertising. Instead, we have been laser focused on building great products at very low costs, delivering the best user experience, being a great industry partner, and winning through word of mouth. Our strategy has been working, as we continue to see rapid and consistent account growth of over 40% year-over-year.

How does Roku monetize active accounts?

Our Platform revenue consists primarily of these sources:

Traditional video ads. This is our fastest growing business and is driven in large part by advertisers and agencies following viewers to OTT, as well as our advanced advertising capabilities. We sell premium 15 and 30 seconds spots that are targeted, interactive, and measurable. Our ad inventory consists of a combination of first-party and third-party inventory. Example sources include The Roku Channel, Roku Direct Publisher channels, and inventory shares accessed as part of other content distribution deals.

Audience Development. We have a robust set of tools for content publishers to build audiences. We utilize a variety of ad placements, particularly native display ads, on the Roku home screen and screen saver, to promote content publishers and their services to our users. We also use email campaigns and placement in customer sign up flow to drive channel downloads and traffic to their channels, and to drive subscriptions or movie and TV show consumption.

Content Distribution. Content publishers want to be distributed on the Roku platform because of our very large audience of engaged streamers. With our content publishers, we negotiate distribution deals that

may include revenue sharing arrangements with providers of subscription and transactional video on-demand services (SVOD, TVOD), access to video ad inventory on ad-supported channels (AVOD) and audience development advertising.

Forward-Looking Statements

This Introduction to Roku letter contains “forward-looking” statements that are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as “anticipate,” “believe,” “could,” “seek,” “estimate,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would” or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements represent our beliefs and assumptions only as of the date of this document. These statements include growth in our platform segment gross profit and growth, the momentum in our Roku TV program, , the growth in ARPU and active accounts and our overall business trajectory. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in the forward-looking statements, even if new information becomes available in the future. Further information on factors that could cause actual results to differ materially from the results anticipated by our forward-looking statements is included in the reports we have filed with the Securities and Exchange Commission, including our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017. Copies of reports filed with the SEC are posted on Roku’s website and are available from Roku without charge.