

## **Introduction to Roku**

Roku pioneered streaming to the TV. We connect users to the movies, TV shows and music they love – and we provide content providers and advertisers with access to our large, growing and highly engaged TV audience. As of June 30, 2018, we had 22 million active accounts, and we stream billions of hours of content every quarter. We have never been more confident that someday *all TV* – and *all TV advertising* – will be streamed.

When the internet disrupts large existing businesses, the opportunity exists to create new large-scale platforms. That's what Roku is – the leading TV streaming platform in the U.S., based on hours streamed. We reach consumers primarily through streaming players, which we sell through retailers, and via Roku TVs which are made and sold by our TV licensing partners. We monetize our growing platform business with revenues from advanced advertising, content distribution and audience development. The Roku OS is purpose-built for TV. We've created a platform that's easy for consumers to use and has lots of great content, while having lower overall costs than rival options for TV licensing partners.

The success of our business is measured by two primary metrics: Active accounts and average revenue per user, or ARPU. As we grow the number of people using our platform and increase the economic value of our relationships with each of those customers, our business flourishes.

One reason we're confident: the sheer size of the TV advertising business – an estimated \$70 billion a year in the U.S. alone. As viewers shift to streaming, advertisers are starting to follow. Nielsen last year reported that 10% of TV viewers in the 18-34 demographic are only reachable on TV via the Roku platform. We are rapidly gaining market share in the TV ad business. It's a reflection of customers' enthusiasm for streaming, Roku's connection to both cord-cutters and cord-shavers (and "cord-nevers") and our ability to deliver highly targeted advertising.

Our streaming platform delivers better TV for everyone: consumers, content publishers, advertisers, retailers, pay TV operators and TV brands.

### **Some commonly asked investor questions about Roku:**

#### ***How does Roku make money?***

We have two primary business segments, which we call Players and Platform. Players reflects revenue from the sale of streaming players. Platform includes advertising, audience development, content distribution and licensing. We have always anticipated that over time our business would be driven by our platform businesses, rather than our hardware. In Q1 2018, platform revenue exceeded player revenue for the first time, and we expect that trend to continue. As noted above, our key business metrics are active accounts and ARPU – our business grows as we add more accounts and improve monetization. Given a \$70 billion TV advertising market in the U.S., the opportunity is large - we are just getting started.

### ***How does Roku grow Active Accounts?***

We drive active account growth primarily by licensing the Roku OS and Roku TV reference design to TV manufacturers, and by selling players. We also add subscribers through our Roku Powered business with Pay TV operators, which is outside of the U.S.

Our Roku TV program is our fastest growing source of new accounts. In the first half of 2018 approximately 1 in 4 smart TVs sold in the U.S. were licensed Roku TVs.

We also continue to see a strong opportunity for players, given the large installed base of TVs that lack internet connectivity and the broad content offering available on the Roku platform. We sell players to help grow our active accounts. We are not focused on player gross margin, instead offering our players at retail prices that attract new customers.

Roku remains laser-focused on building great products at affordable price points, delivering the best user experience, being a great industry partner, and winning through both word of mouth and reviews.

### ***How does Roku monetize active accounts?***

Our Platform revenue consists primarily of these sources:

- **Video ads.** This is our fastest growing business and is driven in large part by advertisers and agencies following viewers to streaming, 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 accessed as part of content distribution deals.
- **Audience Development.** We have a robust set of tools for content publishers to build audiences. We use 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 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.

***Your primary rivals are far larger and have deeper pockets. How can you stay competitive?***

We have been competing effectively with Amazon, Google and Apple for a long time. Our independent nature gives us access to more content. Also, the Roku OS was purpose-built for TV; not a ported mobile OS. It's all a reflection of our single-minded focus on TV – for our rivals, this is just a small part of their total business.

***Do you have any plans to make original content?***

No, we have no current plans to make original content.

***Why did you start The Roku Channel? And why are you distributing the channel off-platform?***

We created The Roku Channel to respond to viewer demand for more, free long-form content. TRC provides more free content for viewers; broader access to consumers for advertisers and content providers; and more advertising inventory for Roku. In less than a year, Roku has become a Top 5 channel on our platform by active account reach, with a rich mix of movies, classic TV shows, and news.

Viewers everywhere are interested in free high-quality content – and we're now offering the channel through third-parties (Samsung is the first), outside the U.S. (in Canada) and on the Web. We love our subscription partners and so do our viewers but they also like free content.

***Why are you making speakers?***

We believe Roku TVs offers the best TV experience. But we can make Roku TV even better. One way we are doing this is by making it incredibly easy for a Roku TV owner to enhance their audio. The emergence of super thin TVs means little room for high-quality speakers. Some consumers turn to home theater systems or soundbars – but these can be expensive and hard to configure. Roku TV Wireless Speakers vastly simplify adding high quality sound to a Roku TV at an attractive price. Note that we also have a licensing program for our home entertainment platform for our wireless “Roku Connect” technology that is now built into Roku OS; over time you can expect additional audio products from both Roku and partners.

***Do you make money from Roku TVs?***

The financial details of our manufacturer relationships are confidential. As noted above, the primary drivers of our business are account activations and account monetization. The reason we license TV reference designs is to help grow our active accounts.

***Do you make money from all content providers on your platform?***

The financial details of our content providers relationships are confidential – but in general we negotiate fair economics from content providers for the value we provide as a distribution partner and the tools we provide for building audience.

## **Forward-Looking Statements**

This “Introduction to Roku” 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 letter. These statements include the growth and evolution of TV streaming and the shift of advertising to OTT, the growth and acceptance of our streaming platform and our overall business trajectory and the growth of our advertising business and our platform segment and the success of channels, features and programs such as The Roku Channel and Roku TV Wireless Speakers. 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 Annual Report on Form 10-K for the year ended December 31, 2017.