

I am recommending a Buy of Roku Inc. (ROKU) at its current price of \$124 with a weighted-average price target of \$145, representing a ~17% appreciation of its current value. Roku continues to see high growth in streaming hours while maintaining strong margins as it has finally reached profitability over the last few quarters. It operates in the strong connected TV (CTV) and streaming video on demand (SVOD) space that are rapidly eclipsing traditional TV viewing methods as the predominant mode of television entertainment. My three key arguments for the long position on Roku are:

1. **Strong Key Financial and Business Metrics:** Roku continues to see strong streaming hour growth in the low to mid-teens on a rolling 12-month basis. They also boast a high gross margin of low-50% on their platform segment, which is brought down by their loss leader Devices segment to a still extremely strong low to mid-40%. They generate high free cash flow that exceeds their EBITDA number while also holding long term tax benefits exceeding over \$1bn in DTAs that can shield over \$3bn in pretax income in the coming years.
2. **Favorable Industry Dynamics/TAM:** CTV has a U.S. TAM of around \$40bn which is on track to surpass traditional TV ad spend by 2028, reaching ~\$47bn. In the other markets Roku operates in, the UK provides an additional \$3.5bn of CTV TAM, Canada \$1.3bn, and Mexico and Brazil ~500mm but growing around 25% per year. Roku is the top streaming platform by hours streamed in the U.S., Canada, and Mexico. Additionally, SVOD TAM is approximately \$100bn worldwide, with \$35bn of that in the U.S., growing at about 6% per year through 2030. Roku has both its Frndly and Howdy services along with revenue share from larger SVODs such as Disney or Apple TV. They also want to target the \$600bn small and medium sized business (SMB) advertising opportunity, but their share of that will likely be modest.
3. **CTV Market Leader:** While the CTV space is highly competitive, Roku is currently the market leader ahead of competitors such as Amazon, Samsung, Google, and now Walmart who recently acquired Vizio. Roku has been growing decently above the industry growth rate using streaming hours as a metric. I think their leading position allows them to continue to take up an outsized share of industry growth as the market grows around them and results in a boon for shareholders.

Catalysts: The current Base scenario, with relatively flatlined growth, would still lead to a higher equity value. The stock is up ~30%+ since they first reported positive net income in 3Q25, and I expect that momentum to continue. Upside catalysts would be beats on Revenue or Margin as they continue to report. Small increases in those projections could lead the stock back *toward* previous highs, although given the strong competition it is likely capped in the \$200s share price range as opposed to the \$400s it has traded at previously during peak Covid.

Bear case: Competing with other low-cost providers such as Amazon and now Walmart with the Vizio acquisition could be an uphill battle despite their current strong market leader position. Bears would say that the competition will limit growth potential and place a cap on upside. Bears will also point to a slowing in streaming hour growth for Roku, despite the growth still being high and outpacing industry growth. It will be important to watch for streaming hour growth to see if Roku is able to continue to maintain their industry leader status.

In conclusion, Roku has finally entered profitability in a strong and growing industry with a lot of momentum behind them. I expect them to continue to grow at or above industry growth levels, and to be able to translate that into strong earnings given their current metrics and ability to stymie taxes with DTAs for many years ahead. While they have some tough competition at their heels, I see them as still reasonably underpriced after years of losses and I like them to appreciate in price to my target of \$145 with upside for much more if they are able to execute on their Scale, Engagement, and Monetization revenue and margin growth initiatives.

Valuation Multiple Sensitivity Analysis

Base Case	EBITDA by Year			
	2027	2028	2029	2030
EBITDA Multiple	\$971,744.59	\$1,453,256.68	\$2,027,813.74	\$2,722,363.84
15	\$112.28	\$160.10	\$217.17	\$286.15
17	\$125.14	\$179.35	\$244.02	\$322.20
20	\$144.45	\$208.21	\$284.30	\$376.28
22	\$157.32	\$227.46	\$311.16	\$412.33
25	\$176.62	\$256.33	\$351.44	\$466.41
27	\$189.49	\$275.57	\$378.29	\$502.46
30	\$208.79	\$304.44	\$418.57	\$556.54

Valuation Scenario Analysis (See Odds as Conservative)

2027 EBITDA Multiple	Price	Odds	Diff
Downside 20x	\$84.17	33.3%	(39.85)
Base 20x	\$144.45	33.3%	20.43
Upside 20x	\$205.55	33.3%	81.53
	WA Target		WA % Increase
	144.72		16.7%