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Roku, Inc. (ROKU)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Roku Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Conrad Grodd, Vice President of Investor Relations. Please go ahead.

Conrad Grodd

Vice President-Investor Relations, Roku, Inc.

Welcome to Roku's fourth quarter and year ended 2024 earnings call. On today's call are Anthony Wood, Roku's Founder and CEO; Dan Jedda, our CFO; Charlie Collier, President Roku Media; and Mustafa Ozgen, President Devices. Our full results and additional management commentary are available in our shareholder letter on our IR website at roku.com/investor.

On this call, we will make forward-looking statements which are subject to risk and uncertainties. Please refer to our shareholder letter and periodic SEC filings for risk factors that could cause our actual results to differ materially from these forward-looking statements. We will also present GAAP and non-GAAP financial measures. Reconciliations of non-GAAP measures to the most comparable GAAP financial measures are provided in our shareholder letter. Unless otherwise stated, all comparisons will be against our results for the comparable 2023 period.

Beginning this quarter, we'll forego prepared remarks and go straight into Q&A. Operator Our first question, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Shyam Patil with Susquehanna International Group. Your line is now open.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys, congrats on the strong results. I had a couple of questions. I guess, the first one, very strong fourth quarter. What drove the outperformance. And do you guys expect that to continue in 2025?

And then second question on free cash flow conversion, how should we expect that to trend in 2025 and beyond? Thank you, guys.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Hi, Sean. This is Anthony. Thanks for the question. We were very pleased with the Q4 results. It was an outstanding quarter. I feel like we're continuing to execute well. And I thought – one of the interesting things about the quarter was just how it provided a lot of proof points that our strategy to grow our Platform revenue is working and working well.

And just to remind everyone the three key points of our strategy to grow Platform revenue, the first is to lean into making better use of our Home Screen. Home Screen is a key – our Home Screen on all our Roku devices is a key asset for us. Half of broadband households in the US start their TV viewing experience with our Home Screen. So, leaning into making better use of the assets is a big part of our strategy to grow Platform revenue.

The second part of it is to continue to drive more ad demand by expanding our third party partnerships. That's also going well.

And then the third point is just to continue focusing on growing our subscription revenue with more focus on subscriptions, generally, more resources focused on subscriptions, and more Home Screen integrations. So, I feel like our strategy is working well and we're seeing that start to play out in the quarter.

Looking at advertising generally, I mean, advertising is also doing well. It did great in the quarter. It was an outstanding advertising quarter as well. Even ex-political, it was a strong advertising quarter.

Advertising picked up on many fronts and one of our strategies around advertising is to continue to create more unique, high demand, broad reach ad units that are unique to our platform. And just for example, one of those ad units is the video marquee ad on our Home Screen. And that's also very popular.

We're also in our ad business, very good at reaching the right person with the right message at the right time. So, it was an outstanding quarter. We're executing well. Our strategy is working and the strategy is going to continue to work. There's still a lot of growth left and this business is still fairly early days in the streaming transition. I expect to see continued growth in 2025.

But let me turn it over to Dan, who can talk more about that part of your question.

Dan Jedda
Chief Financial Officer, Roku, Inc.

A

Thanks, Anthony. Hi, Shyam. It's Dan. So, let me give a little bit of color on Q4 and into 2025. And, the Q4 very strong, we grew 25% on the Platform side. If you back out political, which added 6 points of growth, we grew 19%. And if you look at our Q1 and what we're expecting, we are going to grow 16% on a year-over-year basis for Platform in Q1. And for the full year, we're going to grow 12%. And if you back out political in 2025, we're going to grow 15%, which is actually faster than the growth in 2024.

So, to answer your question, we do expect some very strong results to continue into 2025. If I just take it down to Platform gross margin at the midpoint of our guide for 2025 at 52.5%, that compares to 53.5% in 2024. So, 100 basis point decline. But that's fully explained by ASC 606 adjustments in 2024, which we do not expect any ASC 606 adjustments in 2025.

So, backing out ASC 606, our Platform margins are flat. So, we expect to grow Platform gross profit as much as Platform revenue ex-ASC 606.

And then dropping to adjusted EBITDA, the $350 million guide would imply a 130 basis point improvement in EBITDA margins on a year-over-year basis for 2025. So, again, gaining very good leverage as we grow our Platform revenue, as we manage our OpEx and still continue to invest in our Platform business. So, all in all, very good.

On to your last question on how to think about free cash flow conversion trend in 2025. Thank you for that question. Free cash flow and free cash flow per share is our North Star metric. We feel very good about free cash flow. We ended 2024 at just over $200 million of free cash flow. I'm actually expecting free cash flow to be higher than our adjusted EBITDA guide for 2025. We've got a lot of good things working on the working capital front. We will continue to be CapEx light in 2025 and so free cash flow should continue to grow and should grow faster than adjusted EBITDA for 2025.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Thank you, Anthony. Thank you, Dan.

Operator: Thank you. Our next question comes from the line of Michael Morris with Guggenheim Securities. Your line is now open.

Michael Morris
Analyst, Guggenheim Securities LLC

Q

Thank you. Good afternoon, guys. Two questions for me. One, just to follow-up on that last question. Could you expand on some of the drivers of the 16% Platform revenue growth that you're looking for in the first quarter?

It would be great to hear about how you're thinking about maybe advertising versus SSD and it'd be great to hear also about how these third party DSP partnerships are contributing, and how you think about that throughout the year?

And then secondly, could you share any updated thoughts on how this Walmart acquisition of VIZIO will impact your business. I think they are a pretty large retail partner of yours currently. So, do you expect that your products are going to be de-emphasized or that there will be an impact on your business as a result of that combination? Thank you.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

Hey, Mike, this is Anthony, I'll let Dan take your first question. And then when he finish that, I'll take your second question about Walmart.

Dan Jedda
Chief Financial Officer, Roku, Inc.
A

Hey, Mike, it's Dan. Yeah, I'll take that first question. With respect to the drivers of the 16% Platform revenue growth in Q1. So that is both streaming service distribution and our advertising activities. Both have a very – both are growing very strong in our Q1. We start to comp average – price increases in the back half of 2025. So, we'll give more guidance on SSD going forward. But in Q1, both are driving excellent growth.

We feel very good about the advertising activities both for Q1 and for full year. I would expect our advertising activities to actually grow faster than streaming services distribution, which we love to see. So, all in all, again, very strong going into Q1, very strong for the full year for both SSD, that's primarily from subscriptions. And then of course, our advertising activities, which we've talked a lot about in the shareholder letter and what's driving them including, the answer to the second part of this question on the DSP partnerships, which I'll turn it back to Anthony.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

And then regarding your question about Walmart and the VIZIO acquisition, I'll – let me just make a few introductory remarks and then I'll actually turn it over to Mustafa, who runs our device business, to talk more about it.

First of all, we're doing a great job on growing our streaming households. I mean, we passed over 90 million streaming households globally in the quarter. We added over 4 million new streaming households in the last quarter alone. Our first-party TVs are also doing well. We've sold over a 1 million first-party TVs in 2024.

And, I – we announced, I think last quarter that we expected to, in the not too distant future, pass 100 million streaming households. We're on track for that to happen. So, our streaming households are growing nicely both inside the US and outside the US. Both parts are growing.

We're aware that Walmart bought VIZIO, and that's all taken into account in our forecast and our view of the future. And I fully expect, that our streaming households are going to continue to grow both inside the United States and outside the United States. Walmart's an important partner for us. We do a lot of business together. I also expect that to continue. But let me let me talk it over – turn it over to Mustafa, who can provide more detail.

Mustafa Ozgen
President-Devices, Products, and Technology, Roku, Inc.
A

Hi, Mike. This is Mustafa speaking. The Roku OS has been the number one selling TV OS in the US for six years in a row. For full year 2024, unit sales of Roku TVs were greater than the next two operating systems combined. And as Anthony mentioned earlier, we've surpassed half of broadband households in the US in terms of household penetration.

And we're very large platform in terms of distribution and also in terms of install base. And therefore, our streaming players and all of our Roku TVs have already a wide retail distribution. They are available in popular retailers such as Amazon, Best Buy, Sam's Club and Target and also in other specialty and regional stores. So, it's a quite wide distribution.

And, we continue to gain shelf space in the retailers as we introduce new products and, upgrade our products. And also, because our brand is very popular, customers love our brand, they trust our brand, they ask for Roku by name at stores. So, retailers would love to carry our products. So, overall, these are all, the sort of the reasons why the retailers will continue to carry Roku products. And, as long as there is demand there will be basically good shelf space allocated for our products.

And I should also highlight that we distribute our operating systems to our customers in three different ways. One is with our streaming players, which is quite large business. The other with our third party TVs and recently with our first-party TVs, we have a large sort of different channels to distribute our operating systems. So, we'll continue to do that. So, we feel very confident that we are well positioned to continue to grow in the US, also in other countries, and remain on track to achieve 100 million streaming households target in the coming years.

Michael Morris
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Laura Martin with Needham. Your line is now open.

Laura Martin
Analyst, Needham & Co. LLC

Q

Hey, there. Congratulations on fantastic results. Hey, Anthony.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Hi Laura.

Laura Martin
Analyst, Needham & Co. LLC

Q

So, about a year ago, I think it was – hi, you fired everybody in subscription and had them all report to you. And then in the most recent quarter, you over delivered Platform by about [ph] $100 million (00:13:26) versus consensus. Could you break out for us what did you get done in the subscription business in the year you just finished managing that business. And when you think about the roadmap, how much better or how much bigger of a contributor can subscriptions be going forward? And are they as big as what Charlie is doing over in retail media networks and self-service for the ad business? Thank you.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Hey, Laura. It's nice to hear from you. The connection wasn't great, so I think I got your question. But if I don't answer it, let me know. I think you asked about our subscription business and we break out what we've been doing there in the last year, a little bit about the roadmap and then I wasn't quite sure [indiscernible] (00:14:15) retail and media business.

So, if we go back to our strategy for growing platform revenue, it's leveraging our Home Screen more, growing ad demand, there's a bunch of ways we're doing that, but one of the biggest is working with third party platforms and deeper integration there. And the third is growing our subscription business. There's very large subscription businesses, there's tens of millions of subscribers that we build on our platform. And it's both through what we call premium subscriptions and also through direct-to-consumer subscriptions, all enabled by our billing platform, Roku Pay. And that that business is a – it's a very good business for us. It continues to grow. And there's a lot of items on the roadmap, we don't talk about that will continue to drive that business.

We continue to add more partners. For example, we recently added Max to the premium subscription lineup. And, we've also made changes internally around the way we handle operations and are organized to just give it more focus. We're very disciplined about our OpEx, but we're allocating more of our OpEx to subscriptions than we used to, to speed up some of the changes to the roadmap, we will continue to grow that business. So, I've got a lot of room to grow and I'm very bullish on it.

And then the last part of the question. Yeah. So, I think, that answers your question. If not let me know.

Laura Martin
Analyst, Needham & Co. LLC
Q

Yeah, that was great. And my second one was just on local. I thought it was interesting that political was 6% of your fourth quarter revenue and Trade Desk said it was 5% of theirs. Would you say that's a secular shift out of the local TV business and you would expect that to grow in every two year cycle now, have people converted to using CTV in place of local broadcast or political ads?

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

Well, I'll turn it over to Charlie, but definitely one of the drivers for us was just we spent more – we put more effort into it. I mean, it's an area that we've identified strategically is a big vertical for us that we want to get better and better at. And, we did better than we did the last cycle. I'm sure we'll get better at it the next cycle. So that's one of the drivers. So there are definitely secular shifts. I'll let Charlie talk about it.

Charles Collier
President-Roku Media, Roku, Inc.
A

Yeah. Hey, Laura, how are you?

Laura Martin
Analyst, Needham & Co. LLC
Q

Good.

Charles Collier
President-Roku Media, Roku, Inc.
A

I would say this, you learn so much from political advertising because it really is a good microcosm of what we do very, very well. We talk about driving results for marketers and obviously an election cycle is time bound. They're very specific with respect to their targets. And Roku does a really good job at delivering performance. So, we've seen not just the growth, but I like what it portends in terms of our thesis that we can be a performant platform at the highest level. So, yeah, I think there'll be a continued shift to CTV and Roku specifically because of how well we deliver for advertisers, improve ROI.

Laura Martin
Analyst, Needham & Co. LLC

Q

Thank you. Great numbers.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from the line of Jason Helfstein with Oppenheimer. Your line is now open.

Jason Stuart Helfstein
Analyst, Oppenheimer & Co., Inc.

Q

Thanks for taking the question. Hello everybody. Clearly, the Roku Channel is delivering tremendous usage growth and giving you a lot of available ad units to sell. When you think about your success with political in the fourth quarter, did this crowd out other ad demand or do you think that this was all incremental when you think about inventory [ph] sales (00:17:54)? Thank you.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Hey, Jason, this is Anthony. I'll let Charlie take that question.

Charles Collier
President-Roku Media, Roku, Inc.

A

Sure. Hey, Jason. Look, I think probably in the market, there were people who waited to get out of the political cycle to play some advertising. So, I think advertisers were making that choice. For us we have – like you said, the Roku Channel grew 82% year-over-year. We have a lot of inventory and that allows us to come to the market from a position of strength and really serve every part of demand on the demand curve and to service all types of pricing.

So, for us, I think the question, the incrementality is tough to say. But as I said before, one thing I'm sure of is our ability to target and prove performance was really evident during the political cycle. And I think it served us well throughout the quarter and will continue to do so into 2025.

Jason Stuart Helfstein
Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Matt Condon with Citizens JMP. Your line is now open.

Matthew Condon
Analyst, Citizens JMP Securities LLC

Q

Thank you so much for taking my questions. My question is just on the Home Screen monetization. I understand that you guys have talked about video ads being placed there and that was in beta. There's no mention of it in the shareholder letter, so I just wanted to touch base on that, see how that's progressing and maybe what other levers you guys have there to increase monetization?

And then my second question is just on device revenue and gross profit margins. Understood, I think it was an increased discounting period during the holiday, but it does seem like that carried over into 1Q. So, I'm just trying to make sure if there was any sort of increased competitive intensity in the quarter and into 1Q? Thank you.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Hey, Matt, this is Anthony. I'll let Charlie talk about video ads and just how that plays into overall ad strategy. And then I'll take your following question about device margins. I will say, just before I turn it to Charlie, our strategy of making better use of our Home Screen is not just about putting a marquee video ad on the Home Screen, for example, like we are very careful about putting ads on our Home Screen. I mean, we're very focused on both driving more monetization, but also driving increased customer satisfaction.

We have a very iconic Home Screen. Consumers love it. We have no intention of breaking it. So, putting video ads strategically in different locations on our Home Screen is part of it. But also, for example, we added one row of content recommendations on our Home Screen. That alone is driving significant more engagement in the Roku Channel and also driving a lot of subscriptions as well. So that's another example of like how do we use our Home Screen to drive more monetization.

But let me – Charlie can talk about our ad strategy and how things like the marquee video ad, fit into our overall strategy. And then you can – Charlie can turn it back over to me and we'll talk about device margins.

Matthew Condon
Analyst, Citizens JMP Securities LLC

Q

Thanks, Anthony.

Charles Collier
President-Roku Media, Roku, Inc.

A

Hey, Matt. Look, Anthony's right, the Home Screen is a proprietary asset and it is doing very well in terms of demand for advertisers. We call it the Roku Experience. Everything that an advertiser can participate in inside the UI is considered part of the Roku Experience. And we've been talking a lot to you guys about our demand diversification. And really over the last few quarters we've diversified demand. And I believe the Home Screen placements are a big part of that.

So, the Roku Experience advertising I mentioned in the letter were Pepsi and Neutrogena, but there were all sorts of advertisers who took advantage of not just the marquee video unit that Anthony mentioned, which now puts video on the Home Screen. But we do integrations that include shoppability. We have integrations where we built showcases where people can go in and look at the color of the car that we're advertising. And it's really impact driving and performance.

Roku, in the macro is living at the intersection of two of the fastest growing segments in advertising I would say, commerce driven solutions, which again, our Roku Experience units perform really well. And then just the move from linear to CTV and streaming. And so, all of the unique products in the Roku Experience and the integrations, we do allow us to prove business results for our marketers, not just M&E anymore, but marketers of every category. So, it's working really, really well. Anthony, do you want to take part two.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Yeah. So, device revenue and gross margin. So let me – I'll just repeat like what I said before, which is that we're very happy with the progress we're making on growing streaming households. We passed 90 million streaming households globally. We're growing both in the US and internationally. In the US, we passed half of all broadband households. We added over 4 million streaming households in the quarter. We're making great progress. I expect that growth to continue. We expect to continue to grow streaming households both in the US and outside the US. But in terms of your question about devices and gross margins and revenue, let me turn that over to Dan.

Dan Jedda
Chief Financial Officer, Roku, Inc.

A

Yeah. Thank you, Matt, for the questions. It's Dan here. So, I think as you mentioned, like during the holidays, the market had high expectations for unit sales. And from an overall market perspective, that did not materialize. And a lot of excess inventory across the market did drive pricing down, including at Roku. This did impact our revenue and our device gross profit for Q4. It led to an excess inventory position in Q4, which will impact Q1. It will – this will carry over, just the excess inventory. And basically, this is primarily in our first party TV business. But for the full year – and so we do expect margins to come to – rationalize to a more normal device margin level that's in our guide. So, for the full year, we're guiding to roughly flat dollars for device gross profit relative to 2024. That's on higher device revenue. So, margins are improving and our guide does factor in what we would expect from the market pricing going into this year.

Matthew Condon
Analyst, Citizens JMP Securities LLC

Q

Thank you so much.

Operator: Thank you. Our next question comes from the line of Ralph Schackart with William Blair. You line is now open.

Ralph Schackart
Analyst, William Blair & Co. LLC

Q

Good afternoon. Thanks for taking the question. On the call, you've talked a lot about the strength and the strong outperformance in the quarter and sort of your outlook and that advertising grew faster than overall Platform revenue in Q4. Maybe if you could sort of segment the top one or two things that are going really right now in the business, I'm sure there's a bunch of things come together driving the strong performance, but maybe just get a sense of what's really driving the strong performance in ad business? And then I've a follow-up please.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Yeah, I think – this is Anthony. I mean, all three parts of our strategy to grow Platform revenue are really working well. We are making better use of our Home Screen to drive more engagement and to drive more subscriptions, to drive more ad revenue. There's more – I think there's still a lot of room to grow there, but that's going well.

The integrations with third party DSPs to drive more ad demand, those are going well. We're continuing to work on that. We're continuing to deepen those. And in subscriptions, subscriptions is a good business for us. And it's growing both the premium subscriptions and the direct-to-consumer subscriptions. And there's just a lot of things – lot of product changes, products improvements as well as, partnership improvements, additional partners that are all going to drive and are driving that business. So, at a high level, that's what I'm seeing. I don't know Charlie or Dan, did you have anything to add or you got it.

Charles Collier
President-Roku Media, Roku, Inc.
A

Well, you're absolutely right. Obviously, with all those areas, I'll say one other thing we're able to do is we really can come to the market from a position of strength because of the growth of our inventory. We have the volume, the competitive pricing and the products at every price point on the demand curve. So, you start to look at the way the market's moving and Roku is really well positioned to optimize the premium side of our inventory, our sponsorships, our sports, our Roku City, and all of the premium inventory. And we can service all the way down the demand chain to folks who don't need those signals or willing to take a different inventory mix. So, I very much like the fact that we are growing in this environment and have the kind of volume and competitive pricing flexibility and products at every point.

Ralph Schackart
Analyst, William Blair & Co. LLC
Q

Great. And then just a quick follow up I'm guessing for Dan. In the letter, talked about wanting to provide a clear and accurate outlook based on latest info rather than conservatism. Just curious, has your approach to guidance changed since last call? I'm just kind of curious. Anything you could add on that? What's in the letter? Thank you.

Dan Jedda
Chief Financial Officer, Roku, Inc.
A

Yeah, it's a good call out, Ralph. What we're trying to do is just provide not just Q1 this year, obviously, but full year and give the outside all the – using all the data points we have. Obviously, the ad industry can be very choppy and volatile from quarter-to-quarter, but we're providing our best view that we see for all of – for Q1 and for all of 2025. So again, like I think we're just saying, hey, this is our view internally on what we see for Q1 and for the full year. Obviously, we'll update everybody each quarter as we go through it. But it's not a guide out there that we would say is overly conservative. It's our view of what we would expect for 2025.

Ralph Schackart
Analyst, William Blair & Co. LLC
Q

Okay. Thanks for clarifying.

Operator: Thank you. Our next question comes from the line of Steve Cahall with Wells Fargo. Your line is now open.

Steven Cahall
Analyst, Wells Fargo Securities LLC
Q

Thank you. First just on subscriptions, so we've seen some prices go up at some of the streamers. Netflix took price up recently, but they're also guiding to flattish ARPU for the year. I think their expectation is that folks will down tier to the ad tier and we've seen ARPU be kind of flattish at some of the other big streamers. So, I'm just wondering how that plays into your SSD revenue. If pricing goes up, but folks do end up on some of these lower subscription tiers, do you still get the acceleration of the pricing? Does it flatten it out a little bit? So maybe you can just help us think about how some of these industry shifts towards ad supported tiers that we're seeing roll through SSD?

And then a couple follow-ups on political. So just first, given how big the cycles are getting, this is a record cycle and it seems like 2026 could be similar to 2024 from a cycle size. Are you adding sales force to try to build into political more specifically and help the campaigns in the packs reach the younger audiences?

And then lastly, Dan, sorry, I can't help myself on this one, but it seems like you probably would have had a pretty good idea of political when you reported Q3 and then you've said that the guidance isn't conservative. So maybe just help us understand how the political kind of came in as a surprise in Q4. Thank you.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Hey, Steve, thanks for the three questions.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Sorry.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

On subscriptions. That's okay. I'll turn it over to Dan. I'll just say this. We're not going into any specific deal because our deals vary, our distribution deals. But, as a general matter, our deals are structured to allow us to win when our partners win, so if we sign up subscriptions, if we grow their engagement. So, that often means Roku has some monetization based on subscription builds, but also based on advertising. So – but that's just kind of a general statement. But let me turn it over to Dan.

Dan Jedda
Chief Financial Officer, Roku, Inc.

A

Yeah. Thanks Steve. It's Dan. And Anthony is exactly right. Like, the way to think about subscriptions is the way all our deals are different across the different content of our different partners. But ultimately, like one of the ways I like to think about it is when they win, we're going to win on the economics of it. So as they go through and adjust their pricing to better reflect what's best for them, it's going to flow through to us, depending on the deal and the economics.

And then I'm going to take the third question and then I'll send it back to Anthony or Charlie on political. But the Q4 political did obviously surpass our expectations, really was a very strong end of political cycle. We did know that there was demand. And given all the uncertainty going into the last month of political but it did surpass our expectations for Q4.

And a lot of that is due to Charlie and team and what they were able to do in the political, not just on the sales side but really with amazing focus on what we can do with targeting, political is very targeted, it's very performance driven as Charlie said, and as Anthony said, we are just very focused on this.

So I believe that this particular vertical will be a strength for us going forward. Q4 certainly showcased that. I'll let Charlie talk about or Anthony talk about the political cycle and how they're thinking about it.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

Well, yeah, let me say one thing, then I'll turn it over to Charlie. This is Anthony. Political, the other – we were very focused on political as a vertical because we want to become good at it. And we knew there was a lot of opportunity there. It's very difficult for us to forecast because we haven't – it's not something we do every day. Something we don't have a lot of history, something that we're improving our ability at. So it's an area where forecasts are going to be uncertain. So I think that was also a factor. But Charlie, do you want to.

Charles Collier
President-Roku Media, Roku, Inc.
A

There was also a candidate change which changed the cadence in the middle of the election cycle. But in general, we did step up. I'm really proud of the whole ad sales team and the political team has done a tremendous job. And then I think as the cycle built and as we are successful serving our clients, in this case political clients, more money is coming to Roku because of its performance.

And I think that's a – it's a really good moment in time because it tests a lot of our skills. It shows us what we're good at and where we need to be better. And yeah, we've already started talking about 2026 and even 2028 and how we're going to prepare for it. On the staffing side, technology and all, but all signs were that we're doing a lot of the right things and we still have room to grow.

Steven Cahall
Analyst, Wells Fargo Securities LLC
Q

Thank you.

Operator: Thank you. Our next question comes from the line of Cameron McVeigh with Morgan Stanley. Your line is now open.

Cameron McVeigh
Analyst, Morgan Stanley & Co. LLC
Q

Hi. Thank you. You guys did a good job at slowing your OpEx growth rate recently? And when you think about your OpEx levels, particularly this year, curious where you see the most opportunity to become more efficient.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

Hey, Cameron, this is Anthony. Let me – I'll just say, I think that we are very focused on continuing to grow our investment in our platform business while also being very disciplined about our OpEx levels. And so areas to be more efficient, part of this, where do we hire employees? I mean, we have a lot of offices around the world. Some of them are in lower cost regions versus, say, Silicon Valley. So that's one strategy we're using is to hire more employees in lower cost regions.

We're also looking hard at automation. We really bend the curve on our cloud costs, for example, by putting more resources into the software and writing more efficient software. Obviously we're looking at AI. There's lots of ways to improve efficiency both in operations and on the customer experience using AI, so.

And we spend a lot of time just talking about how to become more efficient, how to be more effective. And so just in general, it's just a big focus for us. Execution in general is something we're really focused on. I don't know, do you want to talk about OpEx, Dan?

Dan Jedda
Chief Financial Officer, Roku, Inc.
A

Well, the only thing I would add on that Anthony is, of course, right, is that doing all what he said has allowed us to reallocate capital to the platform side of the business while not losing any focus on our critical growing the scale on the device side. So we feel very good about the investments that we're making on the platform side to continue to grow our platform revenue.

And we're able to do it because of everything Anthony just said without adding a lot of external OpEx. So it's a really a balanced approach between operational discipline, but continuing to invest in the platform side of the business, which again we all feel very good about.

Cameron McVeigh
Analyst, Morgan Stanley & Co. LLC
Q

Got it. Thank you. And then just secondly, curious how the response has been to the release of your self-serve ads manager. How are you thinking about the SMB opportunity, both in terms of timing and magnitude going forward? Thank you.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

This is Anthony. I mean, the response has been great. And I think it's a huge opportunity. I mean, it's a very large market. It's a very large market of advertisers that don't traditionally buy TV advertising that we can tap into. So it's something we're going to continue to invest in. But, Charlie, I'll let you comment.

Charles Collier
President-Roku Media, Roku, Inc.
A

Yeah, that's absolutely right. And it fits in with our strategy. We talked a lot about demand diversification and the small and medium sized businesses, it is incremental and these are early days. But we like the trajectory and it's really going to diversify our demand well beyond the top 500 advertisers, which is terrific.

Operator: Thank you. Our next question comes from the line of Rich Greenfield with LightShed Partners. Your line is now open.

Rich Greenfield
Analyst, LightShed Partners
Q

[Technical Difficulty] (00:36:42) for taking the question, it's just sort of a -it's one question, but sort of three parts. Humor me four of you. I'm curious how you think about the lifetime value impact of a Roku active account subscriber who subscribes to at least one of these premium subscription offerings that you're talking a lot about in both your letter and on the call earlier.

It feels like once you've subscribed using Roku as your, sort of, value subscriber, we think that has a real lock in effect. But I was wondering if there's anything you've seen in terms of what happens to people getting different devices in the future or not being an active account and how it changes when they have at least one subscription tied to Roku.

And sort of the other side of that is what happens for the provider, whether it's Max or any of your premium subscription partners. What if they – do they see much lower churn when they work with Roku. I know some have seen higher churn with Amazon. I'm just curious sort of what the experience has been with Roku?

And then lastly, just sort of tied into all of this is, do you bundle these subscriptions over time and create your own packages of multiple of these? Or how do you see that changing over time? Thanks.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

Hey, Rich, thanks for your question. This is Anthony. Let's see. So, first of all, I can't really comment on churn rates of different aspects of our business. I would just say on that point, we're very focused on lifetime value, churn, customer experience. And I think we're good at it, I think we understand it quite well.

Obviously, we're always trying to get better, but it's a big area of our data science team and analytics. We're focused – our subscription business, we're focused on growing both premium subscriptions and our direct-to-consumer subscriptions for our app partners. So we have teams working on both. We're happy when we get a new subscriber, no matter whether it's a premium subscription or a direct-to-consumer subscription, I would say they both are generally positive in terms of retention because they both use our Roku Pay billing system.

And so it gets the consumer in the habit of using our billing system. They'll have a method of payment on file. But yeah, I think in general, we aspire to get a higher segment of our customers paying for subscriptions through Roku Pay and through our billing system. It's an area I think – it's an area of big opportunity for us because I would say if you, I mean, compared to some of our competitors, we're actually a little bit behind on premium subscriptions.

I mean, it's a big business for us, but it could be a lot bigger if you compare it to, say, where some of our competitors are versus other areas of our business where we're well ahead. In most areas of our business, we're well ahead of our competitors. But this is one area where I think there's opportunity that we're sort of below where we should be and where we will be.

Operator: Thank you. Our next question comes from the line of Alan Gould with Loop Capital. Your line is now open.

Alan Steven Gould
Analyst, Loop Capital Markets LLC
Q

Hi. Thanks for taking the question. I've got two. One, can you give us an update on what's happening on your international expansion? And secondly, is M&E still a headwind or are we past the tough comps there? Let me throw a third one in, Dan. Was there any ASC 606 adjustment in the quarter? Thank you.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

Hey, Alan, thanks for that single three-part question. Let's see. International expansion. This is Anthony. I mean, we're doing – very pleased with our progress internationally. We're making great progress. I mean, just to remind everyone, the primary markets we're focused on right now is the Americas, North America, Central America, Latin America and the UK.

We're number one – we're the number one streaming platform in Canada, Mexico and obviously the US. We're growing fast in Latin America generally. Our growth is starting to accelerate in the UK. So we're making good progress in the markets we're focused on, I'd say great progress. We do that the normal ways. We're focused on lots of new Roku TV partners. We have new Roku TV partners in Brazil, Colombia, Chile, and Peru, for example.

In UK we expanded the number of Roku TV partners as well as retail distribution partners. So I would say, internationally, in most markets, except for maybe Canada, we're still focused primarily on scale of streaming households and less so on monetization but that will come. And I think last quarter we said we expect to reach 100 million streaming households in the next 12 to 18 months. We're on track to do that. International is a big part of that. So it's going well. I don't know, Dan, do you want to add anything on international?

Dan Jedda
Chief Financial Officer, Roku, Inc.
A

Yeah, let me just – I'll just add a little bit to that. As Anthony said, like we're in different stages of our scale and monetization on the international front. You mentioned Canada where we are actually very focused on monetization. It's growing very well. We're actually hiring more locally in Canada even to double down in that area.

In Mexico, we actually have scale. We reach scale. I think we're over 40% of broadband penetration in Mexico and we're really now starting to turn our focus on monetization. We haven't monetized in any meaningful way there because of the market. And now that we've got the scale, that is going to be a focus point for us going forward.

And then in other countries like Brazil and what we'd call the rest of Latin America, we are in our growing scale phase. And so we're not actively in any big way monetizing those areas yet. But all this will come over time and we would expect, as both our scale continues to grow and as importantly as these markets move to digital advertising that we're going to be in a great position to take advantage of that, especially given our number one position in like Mexico and other areas of Latin America and South America.

So it'll take some time. I would expect that international revenue does become a more meaningful part of our net revenue over time as we continue to build the scale and ultimately get to the monetization side of the business. On M&E, I'll turn it back to Anthony.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

You want to take the M&E, Charlie?

Charles Collier
President-Roku Media, Roku, Inc.
A

Yeah, M&E is something we're really good at. We continue to improve the Roku Experience units that I mentioned earlier and actually we've diversified beyond M&E for those units, from revenue from non-M&E brands. Supporting all those Roku experiences on the platform is healthy and we see a ton of advertisers coming in where it was just M&E before. Anthony mentioned the Roku – I mean the marquee video ad. I will say we're not reliant on M&E for business results like we used to. We're not reliant on any one category like we used to be, M&E is going well and we see opportunity for strength in the category going into 2025.

Dan Jedda
Chief Financial Officer, Roku, Inc.
A

To the last question, I'll take the last question. On ASC 606, there was a very small ASC 606 adjustment in Q4. I think I mentioned earlier like we do not expect ASC 606 adjustments going forward. Our guide for 2025 does not have any ASC 606 adjustments in there. Just given the way we've structured our agreements and the accounting policy, we apply against them. We don't believe ASC 606 will be in our numbers on a go forward basis.

Alan Steven Gould
Analyst, Loop Capital Markets LLC
Q

Okay. Thanks for taking the questions.

Operator: Thank you. Our last question comes from the line of Barton Crockett with Rosenblatt. Your line is now open.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.
Q

Okay, great. Thanks for taking the question. I guess I was curious about some of the news flow overnight. So one of your business partners, The Trade Desk, was talking about some disappointment in their trends. And it raises the question about their relationship with you, which you guys had called out last quarter as a source of strength.

And just this DSP channel generally where there's some competitive kind of gyrations. And I just wonder if you could comment on the health of that relationship and the health of DSPs generally with you guys.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.
A

Hey, Barton, this is Anthony. I'll just make a comment. I'll turn it over to Charlie. I think – so just in general, I think we have a great relationship with The Trade Desk. I mean, it's a very productive business relationship. We're obviously a very large supplier of ad inventory for the connected TV that's important to their business. They're also helping bring us additional demand. So it's a mutually beneficial relationship.

I don't really follow Trade Desk and their stocks. I don't know. I haven't actually even read their earnings. I'm not sure what's going on there. But I'll just say that, I think our relationship is generally good. I mean, we are focused on all demand side platforms. We want to be as diversified as possible. Trade Desk is an important partner, but there's lots of other big DSPs out there and we're working with all of them. So I don't know, Charlie, do you want to add anything?

Charles Collier
President-Roku Media, Roku, Inc.
A

That's right. We have integrations now with every major demand and supply side platform, and we're working really diligently not just beyond them because we've done that, but to optimize those relationships and drive marketer results. So Anthony is right. Trade Desk is a great partner, but not only are we expanding partnerships, we're building deeper integrations with all of them. And this will drive more demand.

We're growing the number of advertisers we serve and the types of advertisers we serve. And I think you're seeing signs that we're growing share of wallet. Earlier we mentioned Roku Channel being up 82% year-over-year. So, we have a lot of inventory and more importantly, we have a lot of high fidelity signals that make us a great partner, not just for the DSPs, but for agencies and inevitably for marketers, which is the most important.

So we'll continue to do more integrations with the DSPs and the SSPs and expand our ability to serve the entire demand curve, as I said earlier, at multiple price points. So really, Barton, in the macro, what's happening is that we're driving incremental revenue and partnerships.

And as we do so, I think you'll see us ensure our inventory is available to advertisers in whichever platforms are easiest and most efficient for them to activate. And you'll see us ensure that our data and our inventory partnerships are optimized, which makes Roku inventory more visible programmatically. And all these partnerships are becoming more and more accountable to our clients.

And so really at the highest level, we're driving better performance for advertisers across all sorts of platform relationships. And this should lead to deeper partnerships and more meaningful investment for Roku.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then if I could just ask one other thing. In the news, trade wars, tariffs, does this mean anything for you guys? Is there any risk on devices from the tariffs in China, any impact on advertising flows? I know, Ford was cautionary about what steel could do to autos. The de minimis could affect ecommerce. Are you seeing anything?

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

A

Yeah, this is Anthony, let me comment on that. Barton, let me just also just wrap up on Trade Desk. I'll just say that just in summary, they're a good partner. We enjoy working with them and it's a mutually beneficial relationship. I don't think that's going to change.

In terms of tariffs, I mean, well, I'll just say at a high level, we don't believe tariffs. I mean, there's a lot of different rumors about tariffs or discussions about tariffs. But in general, from what we can tell, we don't believe the tariffs will have a material impact on our business. And I'll turn it over to Mustafa to maybe explain in a little more detail why that's the case.

Mustafa Ozgen
President-Devices, Products, and Technology, Roku, Inc.

A

Hi, Barton, this is Mustafa speaking. Look, while tariffs could have a broad impact on the industry in general, we believe the impact on Roku will be minimal. Manufacturing of our first party products is already diversified around the world, so we are not really overly impacted by a single country concentration, for example, China concentration.

And also we believe that higher end TV price actually may need to be raised to compensate for tariffs impact, this actually could move some customers into the value segment where we are really strongly positioned. So we may see some benefit there from the tariffs in general.

Dan Jedda
Chief Financial Officer, Roku, Inc.
A

Yeah, and this is Dan, Barton. I just want to add to what Mustafa said, from a device perspective, like any impact on our gross margin related to tariffs we believe would be immaterial. And we don't expect any impact on the platform revenue side of the business. To your point on certain verticals, there's always that possibility that certain verticals are impacted in general. But again, we're very well diversified. Charlie talked a lot about that earlier, so we don't see any issue on the platform side right now as it relates to tariffs.

Barton Crockett
Analyst, Rosenblatt Securities, Inc.
Q

Thank you, guys.

Operator: Thank you. I would now like to hand the call back over to Anthony Wood for closing remarks.

Anthony J. Wood
Founder, Chairman & Chief Executive Officer, Roku, Inc.

I just like to thank our employees, customers, advertisers and content partners. And thank you for listening.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.