

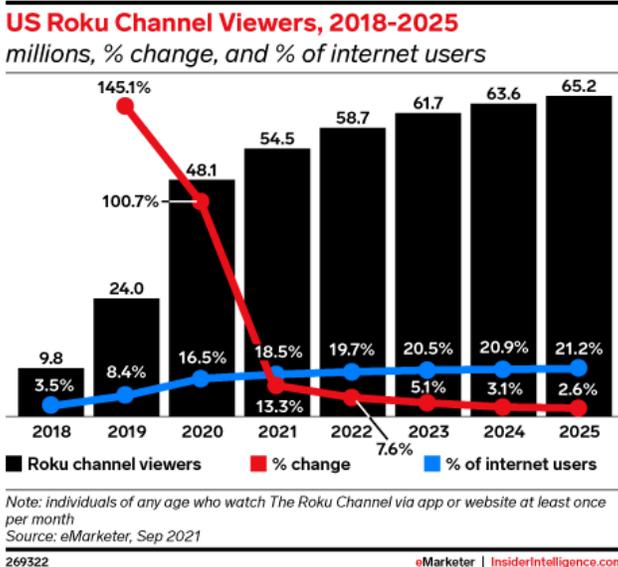
Netflix's rumored Roku acquisition is interesting but unlikely

Article

The news: Rumors of a potential acquisition by **Netflix** swirled internally at **Roku** on Wednesday after a [report](#) from Insider, giving the stocks of the two embattled media companies a bump and prompting speculation about how the theorized deal would change the streaming landscape.

Advertising, content opportunities: Roku's vast suite of advertising tools would help solidify Netflix's recently announced maiden voyage into advertising, which has already been plagued by skepticism and ruled timelines.

- Despite its stock downturn brought on by a troubled ad landscape and shrinking markets for streaming box hardware and services, Roku has emerged as a powerful player in video advertising, generating **\$647 million** in revenue in the first quarter.
- Roku's recent slate of advertising products cover a broad range of growing sectors like anonymized data and flexible linear TV ads, and it has proven success operating an ad-supported video service. We expect Roku ad revenues to reach **\$2.25 billion** in 2022 and **\$2.93 billion** in 2023.
- That's an incredibly well-fleshed out ad business compared with Netflix which, until recently, has never expressed much interest in advertising. Netflix also said it would seek outside partnerships to develop its ad platform rather than develop its own, likely to try and launch ads before the end of the year.
- Roku also has distribution partnerships with several major video platforms, and even has its own anticipated original content and investments in foreign shows that mimic moves Netflix has made.



The setbacks: Advertising and content may make Netflix and Roku seem like a natural fit, but Roku's hardware business would throw Netflix into an entirely new market at a time when it is

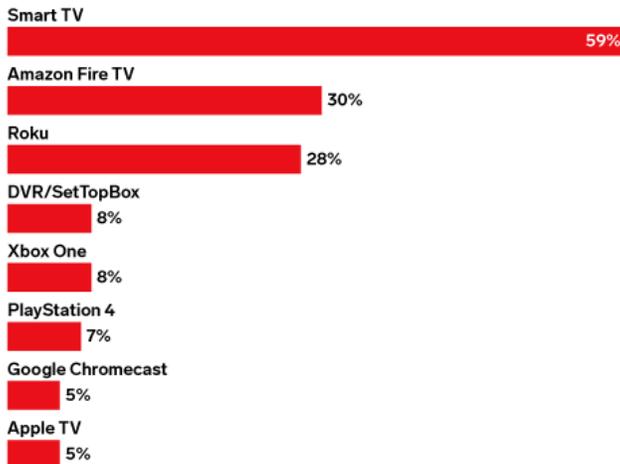
refocusing on its core business.

- Hardware sales have been a pain point for Roku for some time. The company’s heavy pivot toward advertising has helped it ease decreasing box sales, and it has even considered manufacturing connected TVs to close the gap.
- The last thing Netflix needs is to absorb a hardware business on the downswing—not that it seems interested to begin with. Throughout its history, Netflix has shrugged off the idea of getting into hardware.
- There is, however, the possibility of Netflix acquiring Roku and shuttering the hardware business to focus on streaming and advertising.

Will there be a merger? Signs point to no. Roku’s lower stock price might make an acquisition seem appealing, but it’s unlikely that Netflix would be willing to invest in an expensive merger with a long lead time when other moves show an effort to cut costs and rush out new features.

**Share of US Households with Connected TV (CTV),
by Device, Feb 2022**

millions



Source: Comscore OTT Intelligence as cited in company blog post, May 12, 2022

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