

# Roku's Q2 throws CTV's future into question

## Article

**The news:** Last week saw a streak of downer Q2 earnings reports for ad-reliant companies, and Roku is the latest to take a tumble.

- Roku reported net losses of **\$112 million**, up from **\$73 million** in Q2 2021.
- Revenues increased 18% to **\$764 million**, but undershot expectations of around **\$800 million**.
- Citing volatility in the advertising market and supply chain issues, **Roku withdrew its estimates for the rest of the year.**

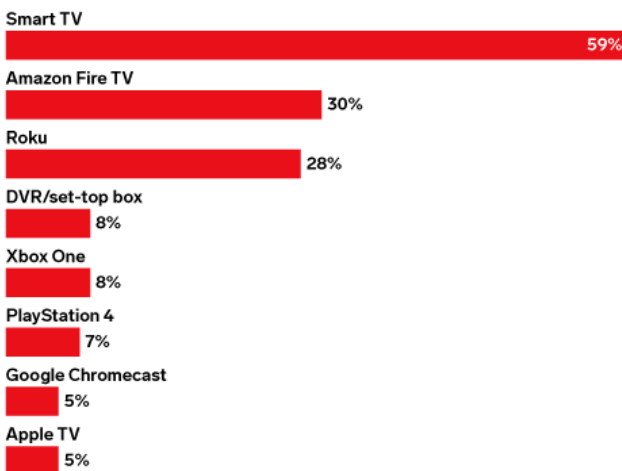
**What this means:** Roku has made itself into a rising star of the media and ad industries thanks to investments in multiple high-demand sectors, and its troubled earnings show that the ad downturn is in full swing.

- Going into 2022, Roku was well positioned to flex its large connected TV (CTV) audience to capture a large share of the **fractured** digital ad market. We forecast that there will be **109.3 million** US CTV households in 2022, and a February **Comscore survey** showed that **28%** of those households used a Roku device.
- Until recently, CTV had been a hot spot of video ad spending thanks to **increased time spent viewing** CTV platforms. And the rich walled gardens of data that gave advertisers access to robust ad targeting capabilities were comparable with what's offered on linear TV.
- Roku spent the first half of the year bolstering those capabilities. In May, Roku revealed a **swath of new advertising tools** and brand marketing programs and even dipped into the streaming wars by announcing exclusive original films.
- All that hype helped Roku secure a record **\$1 billion** in upfront commitments, per its Q2 earnings.

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

*% of total*



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

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**The storm arrives:** Still, a fall from grace has been in Roku's future for some time and it's only been made worse by macroeconomic conditions.

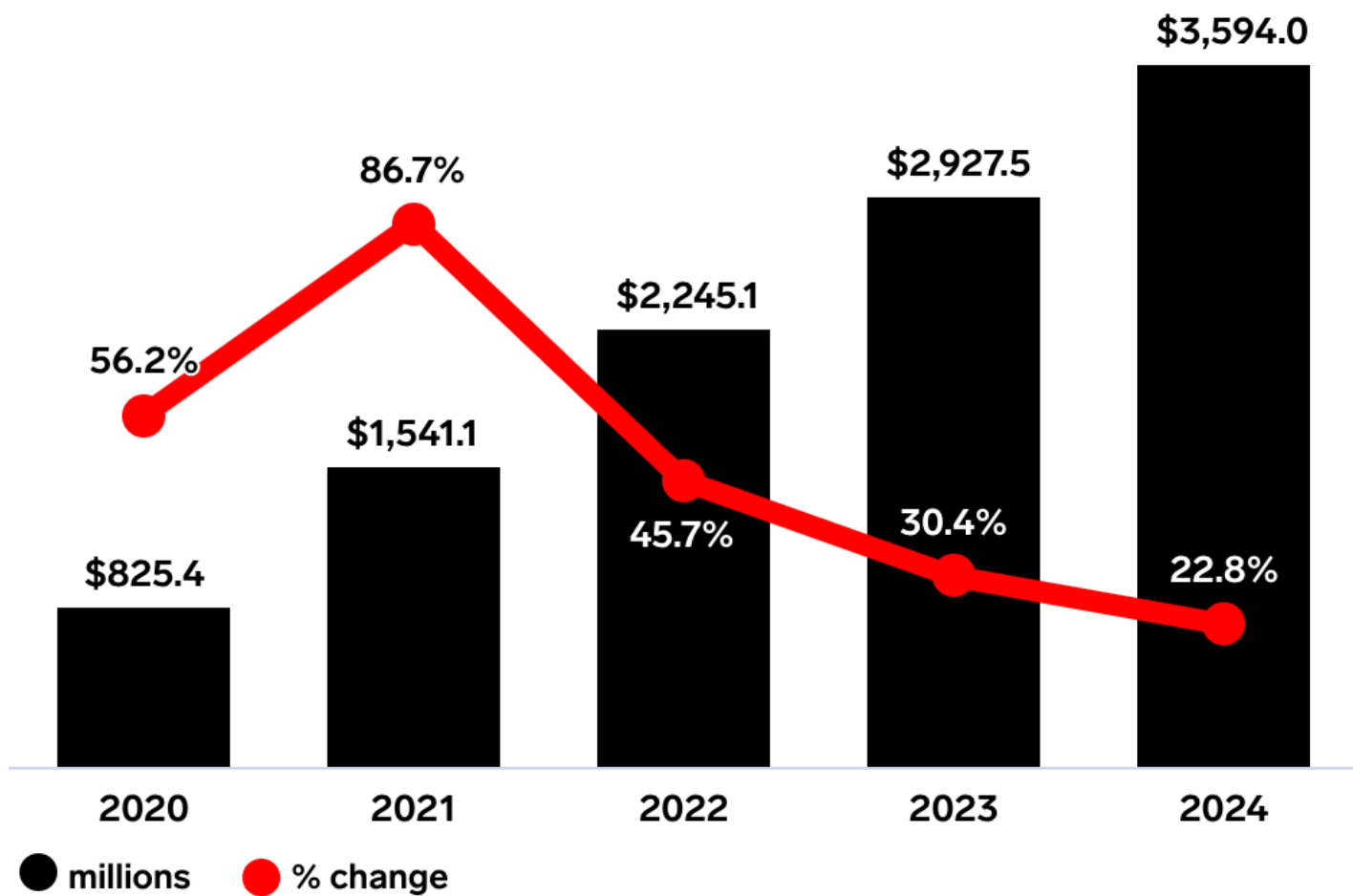
- Advertisers may have scrambled to get in on CTV advertising, but news during the second quarter cast doubt on the market. A June report from iSpot and GroupM found that CTV impressions were grossly miscounted, **costing advertisers \$1 billion** on ads that ran while devices were turned off.
- That doubt, combined with rising inflation and interest rates and supply chain issues prompting advertisers to pull back on spending, meant CTV was among the first sectors to get cuts.
- Roku said as much in a letter to shareholders, citing consumers' tightening wallets and advertisers' curtailed spending as reasons for the rough quarter and murky rest of the year.

**What this means:** There's no denying that the ad downturn is in full effect as spending and impressions normalize to levels below their pandemic-fueled highs. That downturn will hurt ad-reliant companies through the rest of the year.

- The high expense and now-uncertain impact of CTV advertising means spending in the sector is likely to slow down.
- Roku's market cap plummeted following its Q2 news, and larger video or advertising competitors could eye its decreased valuation as an opportunity for an acquisition.

# Roku Ad Revenues

US, 2020-2024



Source: eMarketer, March 2022

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