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Roku squeezes ahead in Q1 earnings as the CTV market gets more competitive

Article

The news: **Roku** eked out better-than-expected results in Q1, showing resilience in hardware sales and viewership in an ad market that's been unkind to the connected TV (CTV) company.

- Revenues totalled $741 million, up just 1% year over year, but topped analyst estimates. Platform revenues, which include licensing and advertising, were also up 1% YoY.
- "Devices" revenues, which mostly includes hardware sales, rose 18% to $106 million, showing strong growth in a sector that's been a pain point for Roku.

In other areas, Roku showed signs of weakness. Though active accounts grew 17% to 71.6 million, average revenue per user (ARPU) fell 5%. The company had a Q1 net loss of $193.6 million, widening from the year earlier, as operating expenses rose about 42%.

Thanks, cord-cutting: Roku's strong hardware sales and growth in time spent are partially due to the record number of US consumers who are choosing to cut the cord.

- Just under one-third (33.1%) of US consumers cut the cord in 2022, leading to the decline of legacy pay TV companies and prompting streaming brands like Roku and **Fubo** to entice consumers seeking lower-cost alternatives.
- That same cord-cutting trend is responsible in part for making CTV **the fastest-growing digital ad format in the US**, increasing 21.2% to $25.09 billion in 2023, per our new forecast. But because CTV is such a crowded field, one company doesn't own the lion's share of revenues—**Hulu** leads at $3.63 billion, with **Disney** and Roku close behind at $2.89 billion and $2.19 billion, respectively.
- Roku is making gains outside the US, too; in Mexico, it was the top selling smart TV operating system for the second quarter in a row.

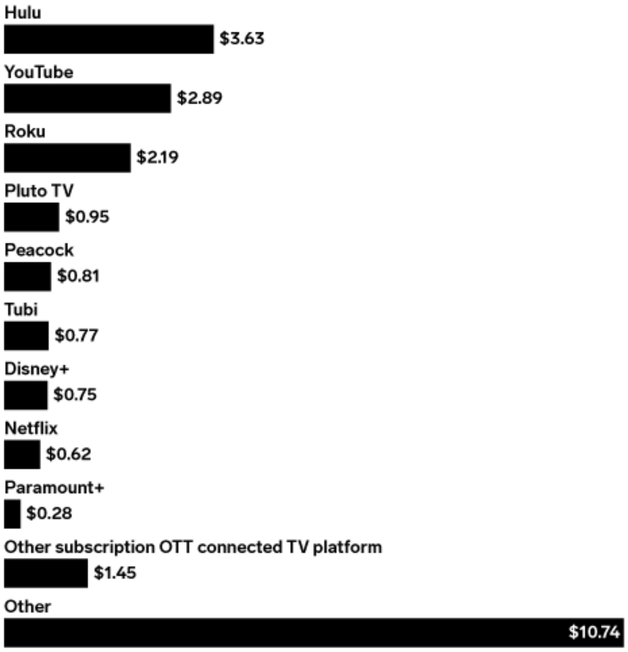
Acquisition speculation: A series of mixed or poor quarters, the crowded CTV market, and recent layoffs have caused many to wonder if Roku will sell off part of its multifaceted business to competitors or other streaming giants, but for now it appears to be hanging tight.

- Roku isn't just a CTV hardware company: It's also dabbled in original content and advertising tech, making it desirable to a number of major video competitors from **Netflix** to **Amazon**. But high interest rates and lower revenues for streamers in general have lessened the chance of an acquisition.

Our take: Roku's slow-but-steady results in a space with meteoric ad spending growth shows just how contentious the CTV market is, even for a company at the top. Without the potential for bundling that a service like Hulu has, Roku will have to do a lot to get cord-cutting consumers to jump aboard.

US Connected TV Ad Revenues, by Company, 2023

billions



Note: digital advertising that appears on connected TV (CTV) devices; examples include display ads that appear on home screens and in-stream video ads that appear on CTVs from platforms like Hulu, Roku and YouTube; excludes network-sold inventory from traditional linear TV and addressable TV advertising
Source: Insider Intelligence, April 2023

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