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**Roku, Inc.** (ROKU)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

**Conrad Grodd**

*Vice President-Investor Relations, Roku, Inc.*

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

**Charles Collier**

*President-Roku Media, Roku, Inc.*

**Mustafa Ozgen**

*President-Devices, Products, and Technology, Roku, Inc.*

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## OTHER PARTICIPANTS

**Cory A. Carpenter**

*Analyst, JPMorgan Securities LLC*

**Justin Patterson**

*Analyst, KeyBanc Capital Markets, Inc.*

**Vasily Karasyov**

*Analyst, Cannonball Research LLC*

**Laura Martin**

*Analyst, Needham & Company, LLC*

**Ruplu Bhattacharya**

*Analyst, BofA Securities, Inc.*

**Jason Boisvert Bazinet**

*Analyst, Citigroup Global Markets, Inc.*

**Peter Supino**

*Analyst, Wolfe Research LLC*

**Steven Cahall**

*Analyst, Wells Fargo Securities LLC*

**Steven Hromin**

*Analyst, Oppenheimer & Co., Inc.*

**Cameron McVeigh**

*Analyst, Morgan Stanley & Co. LLC*

**Alan Steven Gould**

*Analyst, Loop Capital Markets LLC*

**Ian Peterson**

*Analyst, Evercore ISI*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and thank you for standing by. Welcome to the Third Quarter 2024 Roku 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.

Now, I will pass the call over to Conrad Grodd, Vice President of Investor Relations. Please go ahead.

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### Conrad Grodd

*Vice President-Investor Relations, Roku, Inc.*

Thanks, Carmen. Welcome to Roku's third quarter 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](http://roku.com/investor).

On this call, we'll 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'll 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.

Now, I'll like to hand the call over to Anthony.

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### Anthony J. Wood

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

Thanks, Conrad. We delivered strong results in Q3, our first quarter of more than \$1 billion in total net revenue. Roku continued to benefit from our platform's simplicity, value and delight.

The Roku OS has been the number one selling TV OS in the US for more than five years and it was again the number one selling TV OS in the US, Canada and Mexico. Q3 was also the third straight quarter that The Roku Channel was the number three app on our platform by both reach and engagement, with Streaming Hours up 80% year-over-year. A major driver of this growth is our position as the lead-in to TV and we expect to build on this going forward.

This year, we have been focused on our initiatives to grow Platform revenue, which include Home Screen innovation, growing ad demand through deeper third-party platform integrations such as DSPs and growing Roku-billed subscriptions. In Q3, we continued to execute against these initiatives and grew Platform revenue 15% year-over-year.

On our Home Screen in Q3, the Roku Sports Zone organized games and events, including the MLB, the Olympics and the NFL. These zones drove use and engagement and also helped to grow subscribers for our content partners. Additionally, the Sports Zone and our other viewer experiences broaden sponsorship opportunities.

We also continue to deepen our relationships with third-party platforms to better serve advertisers' programmatic needs and we are beginning to see positive impacts that we believe will drive incremental revenue over time. While still early, we feel good about our initiatives to grow Platform revenue and we will continue to balance our investment in growth and profitability.

Now, I'll turn it over to Dan to discuss our results.

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## Dan Jedda

*Chief Financial Officer, Roku, Inc.*

Thanks, Anthony. We continue to drive strong growth in engagement, with Streaming Hours up 20% year-over-year. We also grew engagement per account globally, with Streaming Hours per Streaming Household per day of 4.1 hours in Q3, up from 3.9 hours in the year-ago period.

In Q3, we grew total net revenue 16% year-over-year to \$1.06 billion. Platform revenue was \$908 million, up 15% year-over-year, driven by both streaming services distribution and advertising activities. Within advertising, we saw outperformance from Political advertising, along with early positive impacts from our deeper integration with The Trade Desk.

Streaming services distribution activities grew faster than overall Platform revenue, due primarily to subscription price increases. Devices revenue increased 23% year-over-year in Q3, driven by expansion of the retail distribution of our Roku-branded TVs.

While Platform revenue was up 15% year-over-year, ARPU of \$41.10 on a trailing 12-month basis was flat year-over-year. This reflects an increasing share of Streaming Households in international markets where we are currently focused on growing scale and engagement. Additionally, each country is at a different stage of monetization and each has different economic characteristics.

In Q3, gross profit was \$480 million, up 30% year-over-year. When excluding Q3 2023 restructuring charges, gross profit was up 10% year-over-year. Total gross margin of 45% was up 480 basis points year-over-year and Platform gross margin of 54% was up 610 basis points year-over-year.

Devices gross margin was negative 8%, which was down 10 basis points year-over-year. Excluding Q3 2023 restructuring charges, total gross margin was down 250 basis points year-over-year, Platform gross margin was down 190 basis points year-over-year and Devices gross margin was down 260 basis points year-over-year.

Q3 adjusted EBITDA was \$98 million, which was significantly above our outlook. The better-than-expected performance was primarily driven by our Platform segment. Free cash flow was \$157 million on a trailing 12-month basis. We ended the quarter with \$2.1 billion of cash and recently closed a \$300 million credit facility. We continue to see leverage in our operating model with our fifth straight quarter of positive adjusted EBITDA and free cash flow.

Let me turn to our outlook for the fourth quarter. We anticipate total net revenue of \$1.14 billion, gross profit of \$465 million with gross margin of 41% and adjusted EBITDA of \$30 million. Our outlook for total net revenue anticipates a 16% year-over-year increase.

We expect Q4 Platform revenue to grow 14% year-over-year and Devices revenue to grow 25% year-over-year. We expect Platform gross margin to be between 52% and 53%, in line with the first half 2024. We expect Devices

gross margin to be in the negative high teens due to continued investment in the Roku-branded TV program and seasonal promotional spend. For operating expenses, we expect sales and marketing to be more seasonal in 2024 than in the prior year. As a result, we expect OpEx to be up 9% year-over-year in Q4.

However, sales and marketing and total OpEx will be slightly down for the full year, reflecting our ongoing operational discipline. Our expectations for both Q4 and 2024 OpEx year-over-year growth rates exclude one-time restructuring charges from 2023.

In early 2023, we made a commitment to achieve positive adjusted EBITDA for the full year 2024. Our Q4 outlook implies adjusted EBITDA of \$213 million for the full year and we expect free cash flow to be in line with adjusted EBITDA. This level of profitability is a result of the team's relentless focus on improving our cost structure while continuing to invest in our streaming experience and simultaneously improving Platform monetization. We are confident in our ability to continue driving Platform revenue and free cash flow growth.

With that, let's take questions. Operator?

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## QUESTION AND ANSWER SECTION

**Operator:** Certainly. [Operator Instructions] And one moment for our first question. Our first question will be coming from Cory Carpenter of JPMorgan. Your line is open.

**Cory A. Carpenter**

*Analyst, JPMorgan Securities LLC*

Q

Good afternoon. Thank you. Wanted to see if you could expand on the drivers of the Platform acceleration in the beat relative to your guide in 3Q.

And then, as a follow-up, could you talk about the change and the KPIs in the rationale for removing Streaming Households and ARPU? Thank you.

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Hey, Cory. This is Anthony. Yeah, we had a great quarter, strong quarter, our first quarter over \$1 billion in revenue, Platform revenue was up 15%, which we're very happy with year-over-year.

In terms of what drove Platform revenue, we said in Q4, on our Q4 call in February, that Platform revenue growth and profitability are very important priorities for us and we've been focused on those and that focus is showing results.

In terms of some of the things that we've been doing in that area, one, we're deepening our integration with third-party platforms, which we talked about before, but that's ongoing and going well. And we're seeing early positive impacts from Trade Desk and others. We continue to focus on improving the ways our Home Screen and UI can drive monetization.

Our Home Screen is a very powerful asset for us and we're very focused on innovating there as well as using it more effectively. For example, we added a lot of new vertical ad categories to our Home Screen and UI, including the Sports Zone in the quarter.

Ad spend on our Home Screen for non-M&E brands has grown each of the last three quarters. So, we're focused on deepening and improving our third-party partnerships to drive additional demand, ad demand, focused on growing the ways we use our Home Screen. We're also focused on growing subscriptions.

And one highlight in Q3 is that our Olympic Zone helped to drive substantial volume of Peacock signups through Roku Pay, including many first-time subscribers. We also have a new Content Row on our Home Screen that we added recently and that's also helping to drive subscriptions. So, our strategy to grow Platform revenue is working. We're confident, focused and we're executing well.

In terms of your second question on our KPM changes, we're very focused on Platform revenue growth and profitability. These are the most important or very important priorities for us. Yet, the majority of our Platform revenue is currently generated in the US, but a large portion of our Streaming Households growth is now in our international markets, which are in different stages of monetization and have different economics.

So, for these reasons, we don't believe Streaming Households growth is representative of Platform revenue growth. We're going to continue to grow Streaming Households in multiple international markets as well as in the US. And we'll provide updates on our scale as we achieve certain milestones. For example, I'm confident we'll achieve 100 million Streaming Households in the next 12 to 18 months.

Dan, do you want to add?

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

Yeah. Thanks, Anthony. And thanks for the question, Cory. Let me just add a little bit to the second part of your question. So, the industry and our business have grown and evolved since we established the Streaming Households as a KPM. As an example, at the time of our IPO, we had 15 million Streaming Households. We now have more than 85 million globally. And in the US, we are approaching half of all broadband households.

And as Anthony mentioned, Streaming Households growth is just not representative of Platform revenue growth. And we see that when Platform revenue was up 15% year-over-year, yet total ARPU was flat at \$41.10, so as an example of how ARPU is obscured when looking – when not looking beyond Streaming Households as a metric. Mexico is one of our fastest-growing countries and we have significant penetration of broadband households there.

We're in the early stages of monetization in Mexico and the overall ad and SVOD markets in Mexico are quite different than they are in the US. So, this results in ARPU in Mexico currently being a fraction of the ARPU in the US, but it all blends together when just looking at Streaming Households.

So, while US ARPU has continued to grow over the last several quarters, total ARPU has been flat due to the mix of Streaming Households internationally. And as we stated in the letter, we strongly believe the right KPMs for us are Streaming Hours, which is a great proxy for both engagement and viewer experience and then Platform revenue, adjusted EBITDA and free cash flow and we remain committed to growing all these metrics over time.

To add a little bit more to the first part of your question, Cory, our better-than-expected Q3 performance was primarily driven by our Platform segment in both revenue and gross profit. Platform revenue of \$908 million was driven by both streaming services distribution and advertising.

SSD grew faster than Platform revenue due primarily to subscription price increases, but we also saw a meaningful sequential increase in our advertising activities, despite this challenged M&E market. Some of that was due to the political environment and we just performed very well in political spend. And as we mentioned, we're also seeing very positive impacts from our deeper integration with The Trade Desk.

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**Cory A. Carpenter**

*Analyst, JPMorgan Securities LLC*

Q

Thank you, both.

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**Operator:** And one moment for our next question. And our next question will be coming from Justin Patterson of KeyBanc. Your line is open.

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**Justin Patterson**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Great. Thanks. Building off that last question, you've previously even talked about growth accelerating into 2025. So, given just the momentum you have exiting this year, how should we think about just the ability to accelerate growth each quarter throughout 2025?

And then, separately, I wanted to hit on OpEx. Given sales and marketing and total OpEx are slightly down this year, how are you thinking about the right level of investment to support that growth into 2025? Thank you.

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**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Hey, Justin. Dan will take that question.

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**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

Yeah. Thanks for the question. So, growth of Platform revenue has exceeded our expectations in 2024 and specifically in H2 with our guide in 2024. We had stronger growth than expected again due to SSD from the price increases. We also, in a couple of quarters, did have ASC 606 adjustments. We've seen strong contribution from political spend in Q3.

And so, we've seen an acceleration in Platform revenue in Q3 versus Q2. And our Q4 guide implies a similar acceleration in Q4 versus Q2. And while we continue to expect strong growth in 2025, I'm very optimistic about it. It may not accelerate from current run rates in all quarters, just given certain variables like comping price increases in SSD and strong political spend in Q3 and Q4. And again, we had some positive ASC 606 adjustments in Q2 and Q3 of this year. We'll provide further guidance next quarter and during the year. But, overall, we feel very good going into 2025 on our growth trajectory.

Let me talk – let me briefly address your question on OpEx. As I mentioned in my prepared remarks, we do expect operating expenses to grow in Q4 of this year by 9%, excluding impairment and restructuring charges. But for the full year, we expect OpEx to be slightly down year-over-year, excluding impairment and restructuring charges.

The team has done a tremendous job not only in rightsizing our cost structure, but also in focusing our resources on the highest impact projects, including the highest ROI projects. This work is ongoing and we continue to evaluate capital allocation.

So, while I do expect some incremental increase in OpEx growth rate, as we likely add some head count in FY 2025, mostly in our low-cost locations, I expect the increase to be modest and I expect us to get leverage in FY 2025 and beyond. Again, we'll provide further guidance as the year progresses. But from an OpEx standpoint, it's going to be a modest increase in FY 2025.

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**Justin Patterson**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Very helpful. Thank you.

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**Operator:** And one moment for our next question. And our next question will be coming from Vasily Karasyov of Cannonball Research. Your line is open.

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**Vasily Karasyov**

*Analyst, Cannonball Research LLC*

Q

Thank you. Good afternoon. I wanted to ask Charlie a question about next year, but a different angle. So, out of these two major advertising revenue-related initiatives, the partnership with The Trade Desk, which you said is already providing a positive impact, and the potential for Home Screen video advertising, first of all, which one do you think could be a bigger benefit next year? And can you tell us how you expect them to ramp throughout next year, so that we can keep track of them? Thank you.

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**Charles Collier**

*President-Roku Media, Roku, Inc.*

A

Yeah. Hey, Vasily. Thanks for the question. It's a good question. Starting with The Trade Desk, we began The Trade Desk integration, specifically UID2, in mid-August, and we are beginning to see the positive impacts you mentioned. It's one of many third-party partnerships we've built over the last 18 months. But to your point, there's a lot of opportunity to learn and grow as we optimize The Trade Desk deal and the others.

What we're seeing is that we're growing both the number and types of advertisers we serve. And our early signs show us growing share of wallet as well, which is very good.

So, Trade Desk represents the deepest integration to-date, but also to address how we're going to move forward. We'll continue to do more integrations with other DSPs as well that expand our ability to serve the entire demand curve and do it at multiple price points. And I think this will drive incremental revenue that holds us in good stead as we learn over the quarters.

And then, on the Home Screen video side, it's really an enormous opportunity. The video marquee, which is currently in beta, is really receiving good reviews from our clients. It'll go GA in the fourth quarter and you see us testing new units and looking at new opportunities to monetize the Home Screen all the time.

Our positioning in the market has been about being the lead-in to television and the whole notion of Home Screen innovation is that our Home Screen reaches US households with 120 million people every day. The Roku Channel is the number three app on our platform. And we're excited about the fact that we have the scale and the data to take advantage of that opportunity.



Some of the other things we're looking at, obviously, food, home and sports are zones that we are building off the Home Screen. Those are sponsorable and drive demand and price. And then, we've talked on past calls as well about Roku City, each of which will expand our opportunity set next year.

[indiscernible] (00:20:29)

**Vasily Karasyov**

*Analyst, Cannonball Research LLC*

Q

Thank you. Dan, can I ask quick...

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

Oh, sorry.

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Oh, sorry. This is Anthony. I'll just jump in and add a couple things. On programmatic, well, first of all, I think these are both big opportunities for us and I think we're really just getting started, both programmatic expansion as well as the Home Screen. I mean, if you think about DSPs, I mean, Roku is the number one streaming platform by a very wide margin in the United States, which is the largest ad market in the world.

We're in high demand by DSPs. They all want to integrate with our platform and something that we're now working on in earnest. So, there's a lot of opportunity to deepen those relationships and grow that business.

And then, we're also just getting started on how we can use our Home Screen to drive monetization. I mean, Charlie talked about some of the things we've done like our Food Zone and our Sports Zone and our video ads in the marquee. But we're looking comprehensively at our Home Screen. There's a lot of ways we can continue to improve that, both for the user and for the advertiser. So, there's a lot of opportunity in both of these areas.

**Vasily Karasyov**

*Analyst, Cannonball Research LLC*

Q

Okay. Thank you. Dan, can I ask you quickly how big the ASC 606 adjustment was in the quarter?

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

Yeah. It was \$12 million.

**Vasily Karasyov**

*Analyst, Cannonball Research LLC*

Q

Thank you.

**Operator:** And our next question will be coming from Laura Martin of Needham. Your line is open, Laura.

**Laura Martin**

*Analyst, Needham & Company, LLC*

Q

Thank you very much. Two. Connected television is moving full funnel as Amazon Connect purchases two connected television ad units. And what I'm wondering is about cost per 1,000 pressure for Roku, who really only has a top-of-funnel solution primarily. So, I'm wondering if you are seeing cost per 1,000 pressure as other alternatives have more of a direct performance-based connected television alternative as part of their product set. That's my first one.

The second one is generative AI. You haven't – you're talking about self-service here, which I think is quite intriguing for your small and medium businesses. My question is are you integrating generative AI into the self-service into the self-service offering to get conversions up? And how are you using generative AI today in your product set? Thank you.

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**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Hey, Laura. This is Anthony. Good to hear from you. So, I guess a couple things on connected TV moved full funnel versus not. I mean, first of all, we do focus on top of the funnel as well as we have a lot of products that are focused on performance-based advertisers as well. So, it's not – it's an area that we spend a lot of time working on in terms of our ad product roadmap, addressing the entire funnel of ad demand.

But the more important thing I think about our business is that we're a streaming platform and we're not impacted by market-driven pricing changes in CPMs, the way other streaming services are, because we have a very diversified revenue stream across streaming service distribution and advertising. We have traditional video ads. Of course, we also have a unique set of UI and ad products and sponsorships that are only possible because we own the platform. We also have a lot of performance-based ad products as well that are in our portfolio.

The Roku Home Screen is, of course, one of our most important assets as an ad platform and is why we are the lead-in to TV. Every day, US households, more than 120 million people start their streaming experience with the Roku Home Screen and it reaches people before they decide what to watch, including those that are only going to watch ad-free apps.

So, for a lot of our customers, a Roku ad is the only way to reach those customers. And then, of course, we're continuing to focus on creating new ad products in our UI, including performance-based products. We have a great ad business that's well positioned to grow.

And then, Charlie, do you want to add anything before we go to generative AI?

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**Charles Collier**

*President-Roku Media, Roku, Inc.*

A

Sure. Laura, it's a great question. Thank you. It is true the market currently has a lot of supply. And as Anthony mentioned, it just doesn't impact Roku the same way it will be apps and individual streaming services. The fact that we're a platform, we're not an app, we're not bundling linear assets with CTV assets, these all make a difference.

We have inherent advantages that allow us to not just lessen the impact of market oversupply, but also, Laura, benefit from and really grow in this environment, because we have the scale to absorb pricing fluctuations, we have sports and original programming and unique Home Screen assets like Roku City I mentioned earlier in other assets to just create demand and drive pricing and all of that makes us an extremely effective partner for advertisers. And again, we're just not affected the same way individual streaming services and apps.

Do you want to [ph] take it (00:25:21), Anthony?

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

And then, you also asked about generative AI. This is Anthony again. Obviously, we're looking – I mean, with AI as a technology we use across our business already, we're looking harder about ways we could integrate generative AI in ways that could drive Platform revenue and also be cost effective.

Self-service is one of the way – obviously, one of the areas we're looking at. We just recently launched the Roku Ad Manager, which is a self-service platform, targeting advertisers that want to interact with us on a self-serve basis and particularly small and medium-size businesses. And I view that as a huge opportunity as those – to make it easy for those kinds of businesses to start to easily generate and deliver a high quality television-based ad. The same way they can do an ad word today, for example. And so, that's clearly something we're focused on. And, yeah, there's a big opportunity for us.

Oh, Charlie, you want to add?

**Laura Martin**

*Analyst, Needham & Company, LLC*

Q

Thank you. Thanks very much.

**Charles Collier**

*President-Roku Media, Roku, Inc.*

A

Thanks, Laura. I'll just throw one thing on top of what we're seeing as ads manager really ramps is that a significant portion of the ads sold in ads manager are taking advantage of action and interactivity. So, your technology question is prescient, because we really are building it to meet the needs of the advertiser and it's a solid demonstration of our demand diversification strategy we've been talking about for the last few quarters.

We, from direct IO to a preferred DSP or now through self-service, all of our demand diversification is really focused on Platform revenue growth and it's off to a great start.

**Operator:** And one moment for our next question. Our next question will be coming from Ruplu Bhattacharya of Bank of America. Your line is open.

**Ruplu Bhattacharya**

*Analyst, BofA Securities, Inc.*

Q

Hi. Thanks for taking my questions. I have two. First one for Charlie. So, you've integrated with TTD and you've integrated UID 2.0. Have you seen an uptick in fill rates? What portion of Roku's unsold inventory would you be willing to allocate to these third-party DSPs? And I'm asking that because also the shareholder letter talked about Roku's ability to serve the entire demand curve at multiple price points.

So, Charlie, what guardrail do you have on CPM?

**Charles Collier**

*President-Roku Media, Roku, Inc.*

A

Well...

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

Charlie, do you want...?

A

**Charles Collier**

*President-Roku Media, Roku, Inc.*

Yeah. Thanks. Yeah. Thanks, Ruplu. I appreciate the question. As I said before, I look at the opportunities in The Trade Desk and UID2, but also across all of our DSP and third-party relationships. And I see no correlation with margin degradation, which is at the heart of your question.

A

Inventory management is an opportunity for us and a strength. And again, programmatic does not mean margin degradation. CPMs and margins is a good way for you to think about it. They vary by deal type and we have opportunities for advertisers across that value chain that you [ph] asked about (00:28:17). And we have higher price opportunities on the Home Screen and sports and original programming. And then, obviously, our channel partners are open programmatic.

All of this comes with fewer unique integrations, fewer data signals and fewer sponsorships. Those will be on the lower price, but I am bullish on our ability to price both up and down the chain. And it's not just the DSPs, it's the SSPs, it's our measurement partners. We have a lot of third-party relationships we're building out.

And then, you'll note that we talked about 80% growth in hours that we're driving on the Roku Channel. And so, our opportunity to deploy all these advantages and that growth across the value chain is pretty unique to Roku, because we have enough inventory and enough demand with which to do so.

So, I believe it distinguishes Roku in this market. And I'll just say again, DSPs don't mean margin degradation.

**Ruplu Bhattacharya**

*Analyst, BofA Securities, Inc.*

Okay. Thanks for the...

[indiscernible] (00:29:32)

Q

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

I'll just add that...

A

**Ruplu Bhattacharya**

*Analyst, BofA Securities, Inc.*

Sorry. Go ahead.

Q

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

I'll just add that The Roku Channel was the number three app on our platform for the third straight quarter. And like Charlie mentioned, we grew ours 80% year-over-year. I mean, it's an incredible asset for us.

A

**Charles Collier**

*President-Roku Media, Roku, Inc.*

Yeah.

A

**Ruplu Bhattacharya**

*Analyst, BofA Securities, Inc.*

Okay. Thanks for the clarification there. Just maybe a follow-up for Dan. Can you prioritize your areas of investment over the next 12 months? So, how are you thinking about spending on original content or spending on programmatic and then international expansion? Can you help us rank order that? Thank you.

Q

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

Yeah. I can provide some color on that. So, we've said for several quarters, we're very focused on platform monetization and a lot of our investments and a lot of our allocation of our most important asset, our people do go into the monetization side. We've given some very specific examples of changes we're making in deeper integration with Trade Desk and other DSPs being fully distributed amongst DSPs.

A

We've given examples of changes to our Home Screen that we're working on the original Content Row, video in the marquee. Charlie mentioned we have other ad products that we're continuing to focus on. We've talked about the subscriptions' investment and how we're focusing on improving the subscription journey, if you will, through our platform and using our assets to drive more subscriptions through Roku Pay. We have more to launch in premium subscriptions, which you'll hear about soon.

There's lots of opportunities where we're investing in that are going to drive platform monetization. We're also focusing on international and continuing to grow our scale there. We're doing well on international as I mentioned in an earlier question, we'll continue to invest in international, because ultimately that will monetize as we build scale and engagement.

So, those are the areas we're very focused on in terms of monetization. On the original content question, I'll just remind everybody that much of the cost or content, if you will, in TRC, in The Roku Channel is variable based, not fixed. We do have original content. We do have fixed license content, but the vast majority of that is variable based and is a rev share.

So, original content isn't a significant investment for us in terms of cost. And while we will absolutely continue to invest in this content, because our streamers love it, it's not a material portion of our overall cost structure within The Roku Channel.

And lastly, I'll just reiterate what I said earlier, a lot of our – all these investments are ongoing. They'll continue into 2025, but we're going to do so with modest OpEx growth rates that I talked about earlier.

**Ruplu Bhattacharya**

*Analyst, BofA Securities, Inc.*

Okay. Thanks for all the details.

Q

**Operator:** One moment for our next question. Our next question will be coming from Jason Bazinet of Citi. Your line is open.

**Jason Boisvert Bazinet**

*Analyst, Citigroup Global Markets, Inc.*

Q

I just had a strategic question. You said The Roku Channel, I think, is the number three app on your devices. And it's doing really well, but it's not number three, at least according to The Gauge data from Nielsen. Have you ever thought about distributing The Roku Channel on devices that aren't Roku devices?

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Hey, Jason. This is Anthony.

**Jason Boisvert Bazinet**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah.

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Yes. So – but to elaborate, it is a number three. It is the number three app on our platform, which, obviously, is an area where we have a lot of influence on what our viewers watch, because as the lead-in to television, we spend a lot of time building out features that help our viewers find content to watch. And that position is the primary reason The Roku Channel, which is AVOD content, which tends to be more commodity-based content.

The Roku Channel has awesome selection, a huge number of hours and it's got a lot of good content, but it's generally licensed content that's readily available. And so, that position as the lead-in to television and making recommendations to our viewers on what they might want to watch has allowed us to build that business to a number three app.

We have looked – it is available actually off Roku. It's available on various platforms. It's available on Samsung, it's available on Amazon Fire TV, for example. And it is a top 10 app, overall, amongst all apps. But if you just look at the economics of that business, it's much more economical and much more profitable when it's on our platform versus a third-party platform.

**Jason Boisvert Bazinet**

*Analyst, Citigroup Global Markets, Inc.*

Q

If I can just ask a follow-up, when you guys make innovations like, let's say, the Roku Sports Channel, is that something that gets refreshed on every single Roku device that's in the field or there's some old devices that can't really handle sort of these innovations that you're rolling out to maybe newer devices?

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Yeah. I mean, that's a great question. We don't talk about it much, but we put a tremendous amount of effort in keeping all devices in the field running the same software version and the same release. So, there might be a few small exceptions here and there, like very old devices, but very few. And then, generally, all device, all Roku devices run essentially the same software version and have all the same features by region. So, it might vary by region, like it might be different in Mexico, say, than the US.

**Jason Boisvert Bazinet**

*Analyst, Citigroup Global Markets, Inc.*



Understood. That's great. Thank you.

**Operator:** One moment for our next question. Our next question will be coming from Peter Supino of Wolfe Research. Your line is open.

**Peter Supino**

*Analyst, Wolfe Research LLC*



Hi. Thank you. Two if I may. Want to ask you about your commentary on revenue growth. And I'm sorry if it duplicates a question we heard earlier, but I'm trying to – I want to ask you again to expand on your outlook for 2025. I think those commentary in the transcript – in the prepared remarks that the business has been accelerating in Q3 and you expect it to accelerate again in Q4. And I'm wondering why the press release just has growth in 2025?

And then, on another topic, I wondered if you could talk about your outlook for 2025 gross margins, whether the puts and takes in that outlook are any different in 2025 than those that have existed in 2024. Thank you.

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*



Hey, Peter. Dan will take that.

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*



Yeah. So, to be clear what we said – what I said earlier was the acceleration in Q4 was off of Q2, obviously, because the guide that we gave on Platform was 14% in Q4. And what we said about next year is while we do expect growth and I would even go so far as to say we expect strong growth, The question was from acceleration from current run rates and just some of the comps that we have on political, we need to get – especially in H2, we just need to get later in the year and see what that looks like before I can comment on that.

So, I'm just not giving full-on guide as to if it will accelerate from current run rates. I will say we feel very good about our growth from Q4 going into 2025. We'll provide more updates as we get through Q4 and into Q1. But like I said, I feel very good about our growth potential into 2025. Again, some of these are just comp issues specifically for political and, as I mentioned, some of the ASC 606 adjustments that we had this year.

And then, the second question on the puts and takes on gross margin, so our outlook implies Platform gross margin in Q4 to be between 52% and 53%, which is in line with H1 of this year. And looking beyond Q4, we have different Platform activities growing at different rates. So, mix will have an impact on margin.

For example, as we've stated several times, we believe M&E will continue to be challenged and will become a smaller percent of our overall Platform revenue going forward. This will negatively impact Platform margins, but we also have done a very good job of optimizing our brand advertising margins, which is largely offset the mix impact of M&E.

So, I would just expect – as we go into 2025, I think our margins will be relatively consistent with FY 2024 if you exclude the impact of ASC 606. So, that number is around 52%. That's my expectation going into 2025.



So, think about it as flat margins on [ph] an ex ASC 606 (00:38:23) basis on the Platform side, with us being able to offset any M&E mix impact.

**Peter Supino**

*Analyst, Wolfe Research LLC*



Thanks very much.

**Operator:** One moment for our next question. Our next question will be coming from Steven Cahall of Wells Fargo. Your line is open.

**Steven Cahall**

*Analyst, Wells Fargo Securities LLC*



Thank you. First, just to try to put a finer point on it, so can you just help us make sure we understand what's driving the Q4 deceleration in Platform revenue growth? Is that conservatism? Is that the Olympics in Q3 or the political is a little lumpy in Q3 or the ASC 606 or the M&E comp is just tougher? So, that's the first one. Just to understand that quarter-on-quarter slight deceleration.

And then, secondly, Dan, so you were just speaking about M&E and brand advertising, if we think about Home Screen as a whole, I know it's somewhere where you're investing in the UI, you're potentially expanding into video, which I think is in beta testing. So, if we think about the Home Screen a little more holistically between M&E and Non-M&E kind of revenue, is that still something that you think will start to grow in the future or the comps still pretty tough there? Thank you.

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*



Yeah. To your first question on the slight decel, so, again, that's 15% going to 14%. I think it's the question that you're asking. And again, from a political standpoint, we had a very strong Q3 political and while we expect Q4 to also be strong, I'll just remind everybody that there's really only one month of political in Q4 and that's October.

We also, again had a ASC 606 adjustment in Q3, which I just mentioned was \$12 million. So, again, like if you kind of do it sort of apples-to-apples comparison of Q3 to Q4, it's really not a decel in that context.

To the second question on Home Screen, yes, as Charlie mentioned, video ads in our marquee unit is picking up. I do think that will grow and offset M&E. But overall, M&E spend will just not keep pace with the growth of our brand advertising, which is growing exceptionally strong.

And so, we've been able to grow the advertising activities both on a year-over-year and really a step-up in sequential change in growth from Q2 to Q3 despite these M&E challenges and M&E not growing anywhere close to our brand ads. And again, we expect that to continue.

So, the Home Screen is a big part of that. Also, just overall, our brand ads growing through our integration with Trade Desk and a lot of our other ad products. But essentially like on the Home Screen as a whole, I do think we'll continue to monetize that Home Screen holistically, which is one of the reasons why we've been able to grow sequentially. And again, that we think that growth will continue.



**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

And this is Anthony. Let me just add. Our work on the Home Screen is not just focused on ads in the Home Screen. It's also focused on making the Home Screen more influential on what our viewers watch. And there's lots of ways we monetize that viewing.

So, for example, we talked about one of the drivers of our subscription revenue has been adding subscription services to the recommendation row on our Home Screen. So, there's a lot of activities around the Home Screen, just some of which are rolled out, some we're still working on and haven't been released yet that we expect will drive monetization in a bunch of different areas, including advertising.

And on advertising specifically, the only thing we've done so far is we've added video ads to the Home Screen. But there's other areas in advertising [ph] that leads to the (00:42:05) Home Screen that we're working on as well. And those video ads in the Home Screen, a lot of them are non-M&E now. So, there's a lot of brand advertising that's happening there as well.

**Steven Cahall**

*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

**Operator:** And one moment for our next question. Our next question is coming from Jason Helfstein of Oppenheimer. Your line is open.

**Steven Hromin**

*Analyst, Oppenheimer & Co., Inc.*

Q

Hi. This is Steve Hromin on for Jason. So, just a question on next year OpEx growth, how should we think about that or views on the margin target for next year? Thanks.

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

Yeah. Again, I mentioned earlier that total OpEx, when you back out restructuring and impairment from prior year, was slightly down. I think the number was down 2% to be specific so far. And we expect that to continue for the rest of the year. For next year, what I mentioned is we likely will have some increase in OpEx, although I expect that amount to be modest.

I'm not guiding to OpEx right now, but I think, at a high level, that mid-single digits is probably the right level for us. We'll provide more guidance going forward. But again, we do believe that we can grow our OpEx very modestly while continuing to invest in all these initiatives that we've been talking about throughout this call. So, I do not expect a significant step-up in OpEx. It will be modest.

**Steven Hromin**

*Analyst, Oppenheimer & Co., Inc.*

Q

Great. Thank you.

**Operator:** And one moment for our next question. Our next question will be coming from Cameron McVeigh of Morgan Stanley. Your line is open.

**Cameron McVeigh**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Thank you. I was curious if you are more or less exposed to certain streaming services like Disney, Paramount+, Max, Peacock and whether what is driving an outsized impact on the streaming services distribution revenue, given some of the recent price increases we've seen over the past year? Thanks.

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

Yeah. I mean we're a very large distributor for all the streaming services. So, that's a fairly diversified business across the different streaming services. I mean, obviously, some streaming services have more market share than others, but there's no one particular area I'd call out.

**Cameron McVeigh**

*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. And then, secondly, is curious if you could just talk about the international expansion plans a bit more and how that's trending and whether there's the biggest opportunity in one given country. Thank you.

**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Yeah. This is Anthony. I'll start and then turn it over to Dan for some more comments on that. So, our international expansion is going well. We have a fairly constrained set of what we call focus countries, countries we're focused on internationally. It's basically all of the Americas plus the UK and we're making good progress in all those countries on active account or Streaming Households growth.

And those countries are in different stages of monetization, but they're all fairly early in monetization. So, we're still primarily focused on growth of scale of households in those countries. We mentioned we're the number one streaming platform in Mexico, we're the number one streaming platform in Canada, obviously we're number one in the US and we're growing strong in all of our focused countries.

But, Dan, do you want to add anything?

**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

I'll just add that, as Anthony mentioned, different international markets are at different stages of scale and monetization. As I mentioned, we have scale in Mexico and we're really starting to focus on monetization. And so, we expect to have very strong growth rates in Mexico. But again, we're just getting started. So, the base is relatively small.

We're also seeing meaningful monetization in Canada. These are the two areas where Anthony just mentioned, we're the number one selling TV OS, but other countries are still building scale and just do not yet have meaningful monetization. But we're growing streaming households and engagement.

So, when you think of Brazil and the rest of Latin America and even UK, we're really still building that scale and engagement and monetization will follow. So, over time, we expect international monetization to be a more meaningful percent of our net revenue. But it does take time for us to build scale and engagement, which is what we need to drive platform monetization.

And, again, I think we've said it a couple times is we're going to continue to grow in all our markets and we expect to achieve 100 million Streaming Households in the next 12 to 18 months. And with that scale, we'll ultimately monetize these international countries as well.

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**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

This is Anthony. I'll just add, on that forecast of 100 million Streaming Households in the next 12 to 18 months, we're assuming that we're growing in all markets we're in, all international markets And the US. We expect to be growing Streaming Households for the foreseeable future in all of those markets.

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**Operator:** And one moment for our next question. Our next question will be coming from Alan Gould of Loop Capital. Your line is open.

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**Alan Steven Gould**

*Analyst, Loop Capital Markets LLC*

Q

Thanks. I've got two questions. First, I was wondering, Charlie, if you can just give us some sense of how the ad market is looking right now.

And then, on the hardware side, for Anthony or whomever, how would the new Roku Pro Series TV is doing? And you've had your Roku-branded TVs now for a year plus or so. What impact, if any, have they had on your partner branded TV?

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**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

So, yeah, Charlie can start – kick that off and then Mustafa can answer the Roku TV – Roku-branded TV question.

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**Charles Collier**

*President-Roku Media, Roku, Inc.*

A

Great. Thanks, Alan. Look, third quarter advertising activity has accelerated from second quarter nicely. In the third quarter, the year-on-year growth of advertising activities across the Roku platform, excluding M&E, as Dan said earlier, outperformed both the overall ad market and the OTT ad market in the US. So, we feel really good about.

To give you a few specific categories, a little more inside baseball, in third quarter, the year-on-year growth of political, retail and CPG, as a few ad verticals, they were up on the Roku platform and we've mentioned M&E a couple times, health and wellness, those are verticals that continue to be a little pressured.

A little extra context, the biggest change in the sales process in this market certainly and you've probably been observing it market wide is that the ad market is now a 52-week market. Upfronts were really positive for us and we closed relatively early. However, in an environment where marketers are working with such varied levels of even short-term visibility, we come out of the upfront and jump right into working with our partners on a day-to-day and week-to-week basis.

So, we're focused on brand allocations from the upfront and then meeting advertiser objectives all year long. And it changes like that to the market that I think really hold Roku in good stead because of all the growth and all the characteristics I mentioned in the last answer.

Mustafa, you want to?

**Mustafa Ozgen**

*President-Devices, Products, and Technology, Roku, Inc.*

A

Yeah, sure. Hey, Alan, this is Mustafa speaking. Look, overall, we are very pleased with the progress of our Roku-branded TVs. We're still in the early stages of this journey, which we launched these products a little over a year ago. And our initial focus was on being fully distributed for these TVs. And we've done that. We have now grown from one exclusive retailer, which was Best Buy for the calendar year 2023, now to many national and regional retailers. And we will continue to grow the distribution and also the shelf space for these products.

And with respect to products, again, we continue to receive positive feedback from the users and great reviews and ratings from the technical press. We have three product lineups now: the Select Series, which is our entry-level products; and the Plus Series, the mid-range; and the Pro Series are sort of more performance range products and they are all receiving really, really good feedback.

Pro Series especially, it's been our Halo product that we can show our technology and capabilities. They are really doing well. But Pro Series is a higher-end product. It tends to sell less compared to Select and Plus Series, but overall it complements the lineup and again doing really well.

We are very pleased with the performance of the product in terms of the video and picture quality. The other features that we have, great reviews and whatever we develop and design for our Roku-branded TVs, we actually share with our partners. So, our licensing partners benefit from these technology developments that we have. We are completely open to them, almost they can almost take our underlying hardware and then reuse for their own purposes. So, we are open at that kind of level. And so, it's working well.

So, whatever we're learning, whatever we're developing is contributing to their products as well. And so far, you know, our relationship has been growing with our partners and we continue to bring new partners to our Roku TV program. So, overall, it's all moving in the right direction. And I should also note that the main distribution of our operating system, particularly in the US, is through our third-party TV partners and also with our streaming players. Our Roku-branded TVs are really a small portion of the overall distribution that we get in the US. And then, this will continue this way. We still rely on and we expect to rely on our third-party partners to be the main distributor of our operating system in the US and also in the international markets for sure, because the Roku-branded TV's are really available only in the US, not in other markets.

**Alan Steven Gould**

*Analyst, Loop Capital Markets LLC*

Q

Okay. Thanks, Mustafa.

**Operator:** And one moment for our next question. Our next question, it will be coming from Mark Mahaney of Evercore ISI. Your line is open.

**Ian Peterson**

*Analyst, Evercore ISI*

Q

Thanks. This is Ian Peterson on for Mark. Two questions, if I may. First question, how much of a contribution from political ad revenue did we see in Q3 and how should we think about the political contribution in Q4?

And secondly, for the Q4 platform revenue guide, any color on how much of a headwind there is in the guide related to SSD in the subscription price increases that we saw in Q4 of last year? And secondly, should we expect easier video advertising comps related to the M&E and auto ad verticals from the strikes we saw in Q4 last year? Thanks.

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**Anthony J. Wood**

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

A

Dan will take that.

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**Dan Jedda**

*Chief Financial Officer, Roku, Inc.*

A

Yeah. Let me just talk briefly about political. Political came in above our expectations in Q3. The team did an amazing job and we're demonstrating that Roku has the tools and tech that make it a strategic platform for all advertisers, including political. It's also worth noting that political is another vertical of several – that Roku is getting better at monetizing every cycle.

But to answer your question specifically, like it was a big, it was – it was an impact on Q3. We're not going to say how much it was. It did have an impact on Q3. It is factored into our guide for Q4. But note that, of course, political is only one month in Q4, the month of October versus two strong months in Q3. And again, this is all factored into our guide.

In terms of your question on SSD headwind in the Q4 guide, I would just not think of it as such as a headwind per se, our subscription – we did have price increases throughout this year in many of our partners. And so, we are benefiting from that. That is where it has caused the ASC 606 adjustments in Q2 and Q3. We talked about that.

So, I don't think there's specifically a headwind in terms of SSD going into Q4. I do think that I just want to reiterate that brand advertising, ex-M&E, has continued to accelerate at a very healthy clip due to our innovative ad product due to our integration with Trade Desk and other DSPs. So we like what we see there.

In terms of the last part of your question, if we should expect easier ad comps from M&E from the strikes? Yeah, I just don't think M&E is ever an easy comp, just given the industry and the challenges that M&E faces. And we are in a great position to benefit from any M&E, whether it's due to easier ad comps or if the content partners decide to spend.

However, that's not what we've seen so far and we've been able to grow our platform and our advertising activities despite the challenges from overall M&E. So, again, we feel really good about our path forward even in this challenged M&E environment.

I don't know, Charlie, if you have anything to add to that from the M&E standpoint.

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**Charles Collier**

*President-Roku Media, Roku, Inc.*

A

Well, look, I think it's worth saying that the team is doing a good job and Roku is and will continue to be the best place for M&E partners to build reach, to build engagement and to see ROI. Dan is right. We're not relying on this vertical for future growth, but a lot of the innovation on the Home Screen and beyond both benefits our diversification of categories away from M&E and holds us in a great position when M&E is healthy.

**Operator:** Okay. And I would now like to turn the call back to Anthony Wood, CEO, for closing remarks.

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## Anthony J. Wood

*Founder, Chairman & Chief Executive Officer, Roku, Inc.*

I'd like to thank our employees, advertisers and content partners. And thank you for joining our call today.

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**Operator:** This concludes today's conference call. We are aware that there was a technical issue during the prepared remarks. Roku has posted their prepared remarks. And the replay will be posted on their IR site. This concludes today's conference call. Thank you for participating. You may now disconnect.

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