



1 Landmark Square, 7th Floor
Stamford, CT 06901

Roku's Bumpy Ride

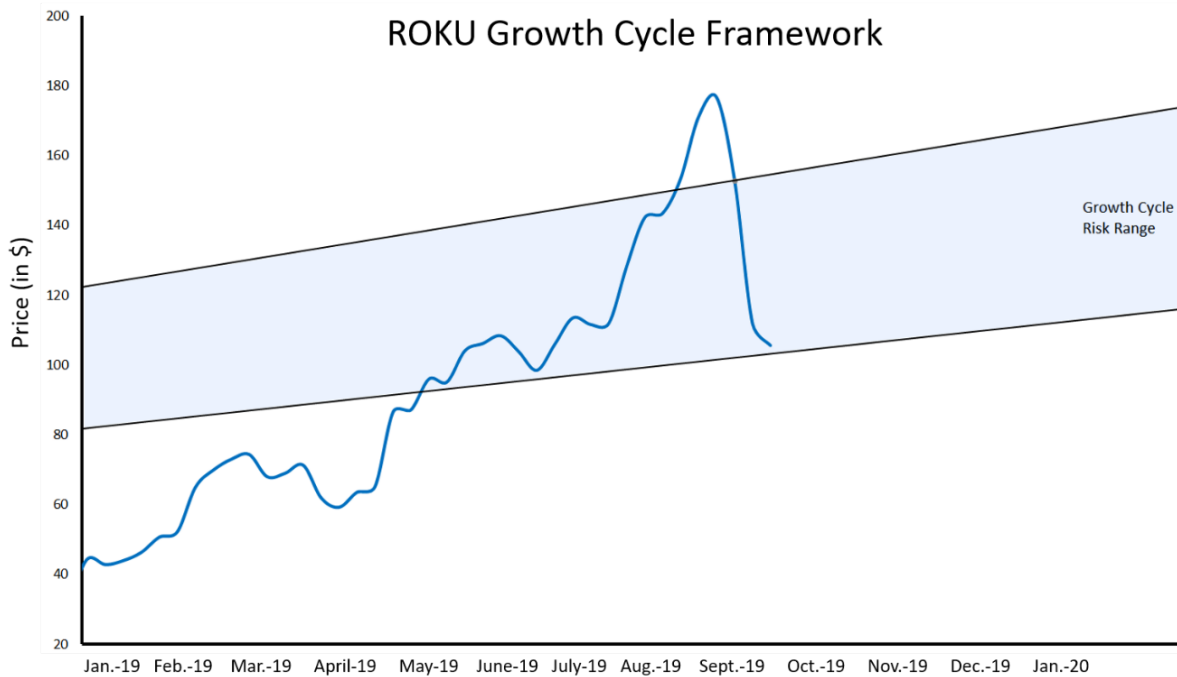
October 2019

Roku provides a good example of how we manage risk using our Growth Cycle framework. As a reminder, Roku is the company leading the television 'cord cutting' movement and is positioned to become a primary operating system for smart-TVs. If successful, Roku will become multiples of its current size as most television viewing will migrate to streaming over time.

Roku today is reminiscent of Netflix nine years ago. Netflix pioneered streaming video, yet in 2010, there were many questions about the company's future because of its emerging technology and expected competition from cable companies as well as Amazon, Apple and Google. Netflix ultimately won that battle and became the dominant streaming content company that it is today.

Netflix's stock returns over that period were extraordinary. In the nine years from 2010 through 2018, Netflix's stock rose from a split-adjusted \$7.87 to \$267.66. That is a 34-fold return, or an annualized return of roughly 48%! However, the path to that return was not smooth, as is often the case for disrupters. During that nine-year run, Netflix's stock experienced four corrections of more than 30%, including a jarring 82% correction from July 2011 to September 2012. Owning shares of Netflix for that duration tested the resolve of virtually all fundamental investors.

We believe Roku is on a similar journey. Below is a graph of our Growth Cycle Risk Range with the stock chart superimposed. We create the risk range for each company by modeling and forecasting its financials as far into the future as we can with some degree of confidence, and then mapping those ranges back to the present. In general, as a stock price moves toward the upper bound of our range, we reduce the position, and when the shares are trading near the lower bound, the margin of safety is greater, and we typically add to the position. The majority of our effort focuses on refining and updating the fundamental information that goes into our models. Each new data point, whether a company's quarterly earnings report or information from competitors, informs our thesis, can alter our models and our risk ranges. By projecting our range forward, we essentially create a map for how to manage investments.



We first invested in Roku in May as we were developing our models and understanding of the company. The stock was below the bottom end of our range at the time. We made several additions and reductions based on market conditions and new fundamental information throughout the summer. In August, as the stock went above the top end of our range, we meaningfully reduced our position by roughly one third. Most recently, we began adding back to our position in late September at \$128 as the stock came back toward the middle of our range. In hindsight, we were too early as the shares are recently trading closer to \$100. As market conditions stabilize and with Roku near the bottom of our risk range, we anticipate we will continue to build this position so long as the company remains on its current fundamental trajectory.

The GrowthLine Team



1 Landmark Square, 7th Floor
Stamford, CT 06901

This Newsletter, article, blog is for informational purposes only and does not constitute, either explicitly or implicitly, any provision of services, products or funds by GrowthLine Capital Management LLC ("GrowthLine"). Investors should determine for themselves whether a particular service, product or fund is suitable for their investment needs or should seek such professional advice for their particular situation. All content is original and has been researched and produced by GrowthLine unless otherwise stated therein. No part of the content may be reproduced in any form, or referred to in any other publication, without the express written permission of GrowthLine. All statements made regarding companies, securities or other financial information contained in the content or articles relating to GrowthLine are strictly beliefs and points of view held by GrowthLine and are not endorsements of any company or security or recommendations to buy or sell any security. By visiting and/or otherwise using the GrowthLine website in any way, you indicate that you understand and accept the terms of use as set forth on the website and agree to be bound by them. If you do not agree to the terms of use of the website, please do not access the website or any pages thereof. Any descriptions of, references to, or links to other products, publications or services does not constitute an endorsement, authorization, sponsorship by or affiliation with GrowthLine with respect to any linked site or its sponsor, unless expressly stated by GrowthLine. Any such information, products or sites have not necessarily been reviewed by GrowthLine and are provided or maintained by third parties over whom GrowthLine exercises no control. GrowthLine expressly disclaims any responsibility for the content, the accuracy of the information, and/or quality of products or services provided by or advertised on these third-party sites.