GrowthLine®

1 Landmark Square, 7th Floor
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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.

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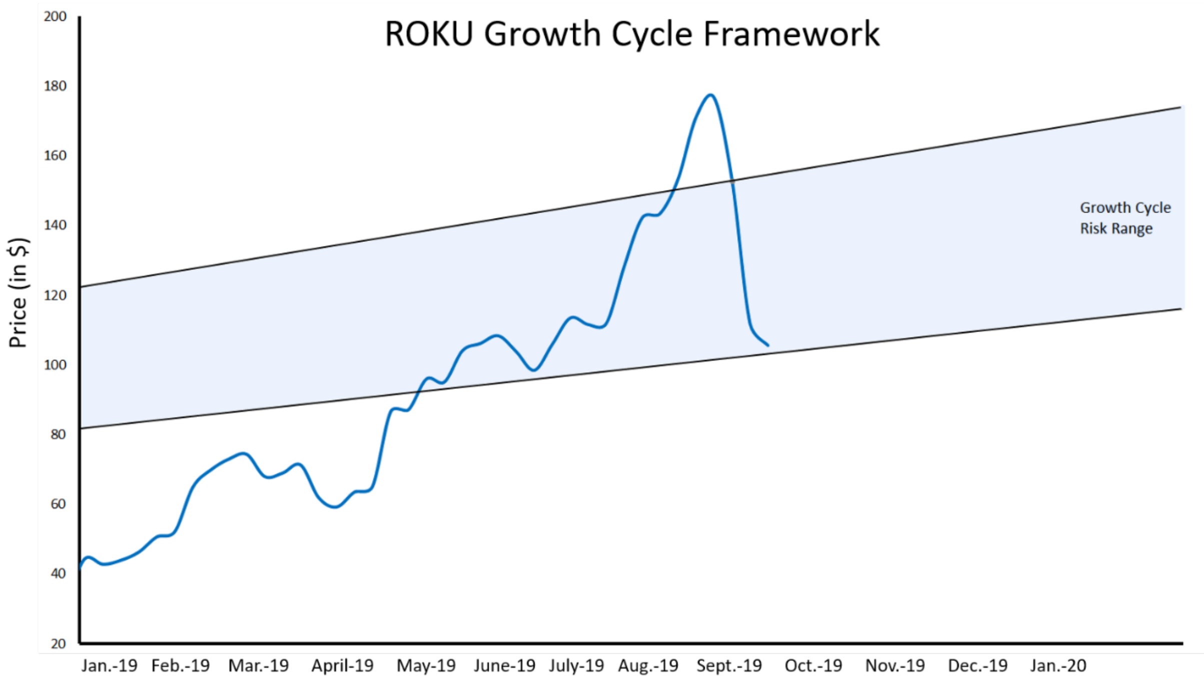

We first invested in Roku in May as we were developing our models and understanding of the company. The stock was below the bottom end of our range at the time. We made several additions and reductions based on market conditions and new fundamental information throughout the summer. In August, as the 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

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