

September 12, 2017

Ravi Ahuja
Chair, Nominating and Corporate Governance Committee
Roku, Inc.
150 Winchester Circle,
Los Gatos, CA 95032

Ray Rothrock
Member, Nominating and Corporate Governance Committee
Roku, Inc.
150 Winchester Circle,
Los Gatos, CA 95032

Stephen Kay
Senior Vice President, General Counsel and Secretary
Roku, Inc.
150 Winchester Circle,
Los Gatos, CA 95032

Dear Messrs. Ahuja, Rothrock and Kay:

I am writing on behalf of the Council of Institutional Investors (CII), a nonpartisan, nonprofit association of employee benefit plans, foundations and endowments with combined assets exceeding \$3 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, and with very long investment horizons. Our associate members include a range of asset managers with more than \$20 trillion in assets under management, many or most also with long-term investment horizons.¹

CII members share a commitment to healthy public capital markets and strong corporate governance. As our members have long-term investment horizons, we are concerned that Roku, Inc., plans to go public with a dual class common stock structure, with low voting rights for public shareholders. This will limit accountability to public shareholders over the long-term, particularly as it appears that Roku will not have a sunset provision for unequal voting rights.²

¹ For more information about the Council of Institutional Investors (Council or CII) and our members, please visit the Council's website at <http://www.cii.org/about-us>.

² We understand that there will be some sort of transfer restrictions for super-voting Class B shares under a restated certificate of incorporation, which, if not followed, would result of conversion of the shares to Class A common. We do not know the nature of those transfer restrictions based on public disclosure at this stage that we have reviewed. But in any case, the likely practical effect as some Class B holders transfer shares is to consolidate control by Mr. Anthony Wood.

We think going public with dual class shares in the first place is a poor idea, but that if a company does decide to do so, the board should insist on a time-based sunset that eliminates the super-voting shares within five years or less, subject to extension by holders of the class of shares with low voting rights, voting on a one-share/ one-vote basis, to extend such provision for a term of no more than five years.

The principle of one-share, one-vote is a foundation and core value of good corporate governance and equitable treatment of investors. When CII was formed in 1985, the very first policy adopted was the principle of one-share, one-vote.³ The importance of this approach has been underlined repeatedly by investors since then, including the January 2017 launch of the “Framework for Promoting Long-Term Value Creation for U.S. Companies.”⁴ The Framework, backed by 48 leading asset managers and owners that are members of the Investor Stewardship Group, states that “Shareholders should be entitled to voting rights in proportion to their economic interest,” and that “companies should adopt a one-share, one-vote standard and avoid adopting share structures that create unequal voting rights among their shareholders.” The leaders of 13 major companies, who signed a separate July 2016 Commonsense Corporate Governance Principles, also said dual class voting structures are not best practice.⁵

As long-term investors, we believe a decision by Roku to go public with a dual-class structure would undermine confidence of public shareholders in the company. Independent boards accountable to owners should be empowered to actively oversee management and make course corrections when appropriate.

We recognize the board’s statements that Mr. Wood, Roku’s chairman, CEO and controlling shareholders, is critical to management and success of the company. However, we note that his control would continue even if he quits employment with the company and shifts his attention elsewhere. As the draft prospectus acknowledges, his interests in the future may diverge from those of shareholders generally. Founders are not always the best CEOs forever, as companies evolve and grow. And sometimes, like all humans, they do not perceive their shortcomings. There is substantial evidence that board members of dual-class stock companies controlled by management are less likely to challenge management, notwithstanding some notable exceptions at a handful of public and private companies.

We acknowledge that in recent years, some young companies with dynamic leadership and promising products, like Roku, have attracted capital on public markets despite having dual class structures. However, the performance record of dual class companies is decidedly mixed in the long-run and even in the medium term, notwithstanding selection bias affecting which companies pursue the dual class experiment.⁶

³ CII [Corporate Governance Policies](#) (Section 3.3) provides that, “Each share of common stock should have one vote. Corporations should not have classes of common stock with disparate voting rights. Authorized, unissued preferred shares that have voting rights to be set by the board should not be issued without shareowner approval.”

⁴ See <https://www.isgframework.org/>.

⁵ See <http://www.governanceprinciples.org/>.

⁶ Studies on 10-year performance in total shareholder return published in 2012 and 2016 by the IRRC Institute found that multi-class companies significantly underperformed by that metric. (IRRC Institute, [Controlled Companies in the Standard & Poor’s 1500: A Ten Year Performance and Risk Review](#), October 2012; and

We recognize that the holders of super-voting shares will in fact own a significant majority of shares immediately post-IPO, lessening our concerns in the short-run. However, as mentioned above, our interest is in the longer-term health of capital markets. The share structure clearly contemplates growth in the equity capital base over time such that the founders and other holders of Class B shares eventually will own a minority of shares, potentially a small minority to the extent that some Class B holders exit and/or if controlling holders approve authority for shares beyond authorization at IPO.

The disenfranchisement of public shareholders is problematic when the company encounters performance challenges, as most companies do at one point or another, and especially where management essentially is accountable only to itself and the board that it effectively appoints.

We are encouraged that index providers are becoming more sensitive to concerns of long-term holders on dual-class structures. As we understand it, under current rules Roku as structured would never be added to the S&P 1500 Composite or its component indexes, including the S&P 500. While elements of the share offering have yet to be filled in, it also appears that as an initial matter, Roku would be excluded from the Russell 3000 and other FTSE Russell indexes, although we assume that votes in the hands of public shareholders will relatively soon be sufficient to no longer disqualify Roku from those indexes, assuming company growth combined with conversion of some of the Class B shares.

Public company investors have demonstrated time and again that they will support innovation and investment for the long-term, as has been the case for many years at Amazon and many other companies. While establishing accountability to new owners does not always maximize comfort and compensation for management, we believe accountability is important for performance longer-term, including through bumps in the road that every company will experience.

Roku's board is adopting various protections to insulate itself and management, including staggered election of directors; an exclusive forum provision; and emerging growth company exemptions from shareholder say-on-pay votes, certain disclosures and auditor attestation on financial controls.⁷ While these are concerning to us, all are either time-limited, or would be subject to change by shareholders under Delaware law. So, our particular focus is on the dual class share structure, which creates more formidable barriers to accountability.

[Controlled Companies in the Standard & Poor's 1500: A Follow-Up Report of Performance & Risk](#), March 2016.) In the more recent study, average annual TSR at multi-class companies over 10 years was 5.7 percent, compared with 8.5 percent at non-controlled companies and 7.4 percent at controlled companies with single-class structures. Other indicators fail to show outperformance by multi-class companies, despite the premise that such structures should protect the flexibility of dynamic leadership to innovate, without concerns on short-term share price impacts, and create value longer-term. The 2016 study concludes that "Controlled companies featuring multiple classes of stock generally underperformed on a broad swath of financial metrics over the long term [and] are perceived as having more financial risk" than non-controlled firms. Multi-class companies in the S&P 500 pay CEOs substantially more than companies with single-stock structures (especially as compared with single-class controlled companies), which accrues to CEOs but without comparable payoff for shareholders.

⁷ We appreciate the board's decision to follow new and revised accounting standards even if they do not yet apply to private companies, notwithstanding the available exemption.

We believe Roku is a promising company, and we strongly encourage the board to reconsider the proposed capital structure. I would be glad to discuss our views further.

Sincerely,

A handwritten signature in black ink that reads "Kenneth A. Bertsch". The signature is written in a cursive style with a large initial 'K' and a long, sweeping tail.

Kenneth A. Bertsch
Executive Director