



Vizio Holding Corp (VZIO)

Fall 2021

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I. Investment Overview

Buy VZIO at 1.00% allocation (30% implied upside)

Investment in both Value and Growth

- Diverse sources of income: products, capabilities, content, advertising ..
- Strong, steady reputation in hardware rolls over into software investment
- Platform revenues look to grow as Vizio TVs continue to enter homes steadily

Smartcast Platform Growth

- Platform+ net revenue increased 134% year-over-year to \$85.9 million
- SmartCast Active accounts increased 35% year-over-year to 14.4 million
- ARPU increased 91% year-over-year to \$19.89M
- SmartCast Hours of 3.6 billion, up 16%

Industry Tailwinds

- The global smart TV market is expected to expand at a compound annual growth rate (CAGR) of 20.8% from 2021 to 2028
- The global video streaming market is expected to expand at a compound annual growth rate (CAGR) of 21.0% from 2021 to 2028.
- AI is allowing streaming providers the opportunity to tailor both content and advertising to specific user preferences

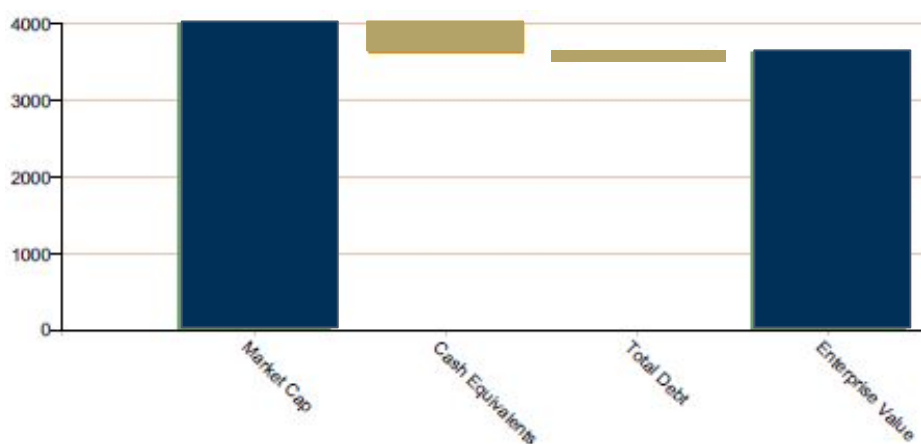
Business Description

- Through its subsidiaries, VIZIO designs and manufactures consumer electronics such as smart TVs, sound bars, and smartcast operating systems
- Products are sold to retailers and through online channels throughout the United States
- On March 12, 2021, VIZIO Holding Corp. acquired 100% of the outstanding shares of VIZIO, Inc.

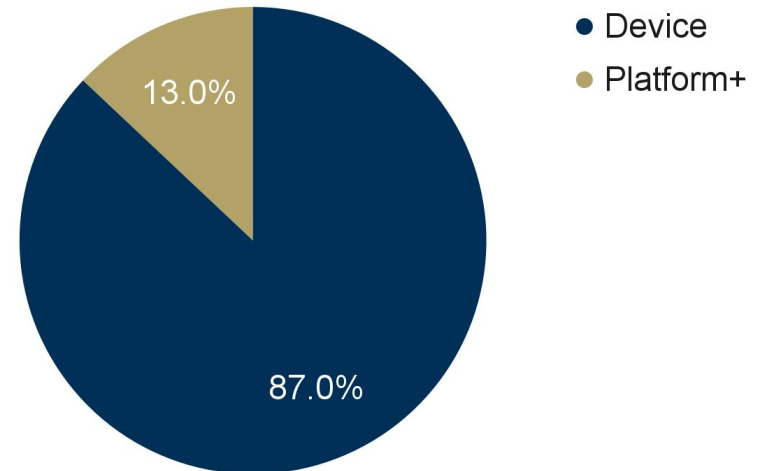
Key Statistics

GICS Sub-Industry	Consumer Electronics
Market Cap	\$4.058B
Current Price	\$21.63
52-Week Range	\$17.30 - \$28.80
Beta	N/A
Dividend Yield (6-month)	1.11%
Credit Rating	BBB

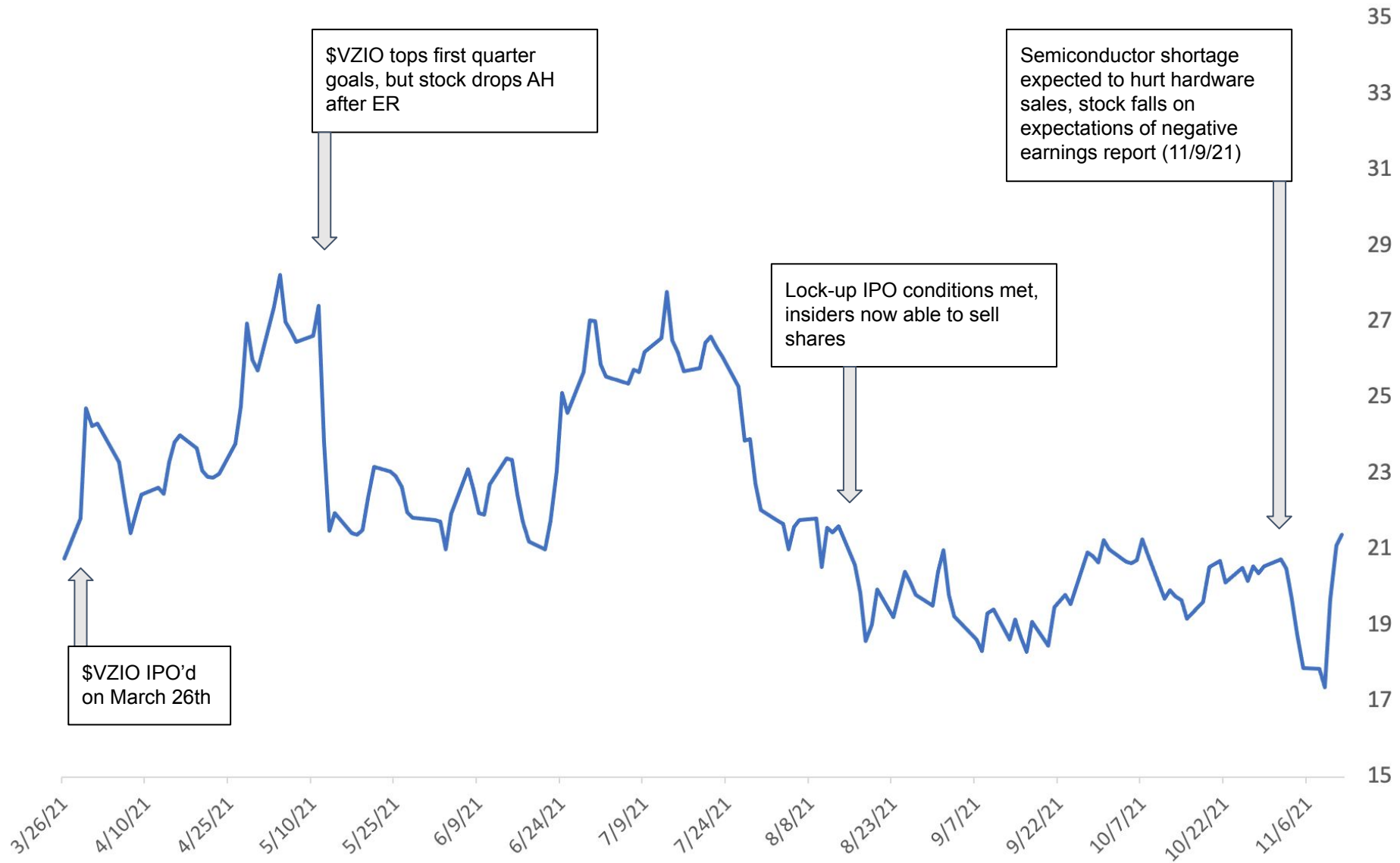
Current Capitalization



Segment Breakdown



VZIO Stock Performance since IPO



Hardware Sound Bars

- The global soundbar market was valued at **USD 5,094.3 million** in 2020
- **CAGR of 8.6%** during the period of 2021-2026

Drivers:

- The **increasing penetration of subscription-based platforms** is complementing the growth of soundbar because it provides an enhanced sound quality to the viewers.
- Integration of **voice assistance technology** (eg: Bose & Sonos soundbars support Google VoiceAssistant)

Platforms Streaming Revenue

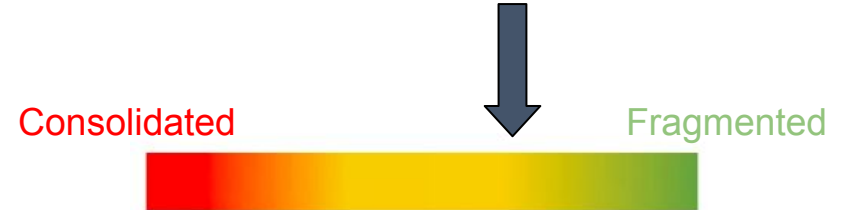
- The global video streaming market size was valued at **USD 50.11 billion** in 2020.
- It is expected to expand at a compound annual growth rate (**CAGR**) of **21.0% from 2021 to 2028**.
- Market Share by user in 2020:
 - Customer: 51%
 - Enterprise: 49%

Hardware TVs

- The global smart TV market was valued at **USD 174.78 billion** in 2020
- **CAGR of 20.8%** during the period of 2021-2028

Market Segmentation:

- Major players: LG, Samsung, Sony Corp, Panasonic Corp, Vizio



Drivers

- Innovations, such as blockchain technology and artificial intelligence, to improve video quality are expected to boost the market growth
- The growing adoption of cloud-based solutions to increase the reach of video content is influencing the market growth positively
- COVID Impact: The video streaming services have experienced a rise of around **10%** in viewership during the lockdown

II. Business Analysis

Device Highlights

- Launched the 2022 Quantum Color TV collection with the industry's best color range
- Powerful new Bluetooth VIZIO Voice remote enables faster search and discovery
- New collection is geared for gamers with a dedicated gaming engine and AMD FreeSync
- Expanded award-winning 2022 collection of immersive soundbars featuring Dolby Atmos and DTS:X

Platform+ Highlights

- First IAB NewFronts presentation led to strong upfront commitments from advertisers
- Doubled direct advertising customer base this quarter versus a year ago and more than tripled average revenue per advertiser
- Select streaming app launches during quarter included LEGO TV, The Space Channel, Go Traveler, and Midnight Pulp
- Surpassed 11 million TVs capable of dynamic ad insertion with major networks like AMC, Discovery, and FOX launching live local and national addressable TV campaigns

Recent Awards

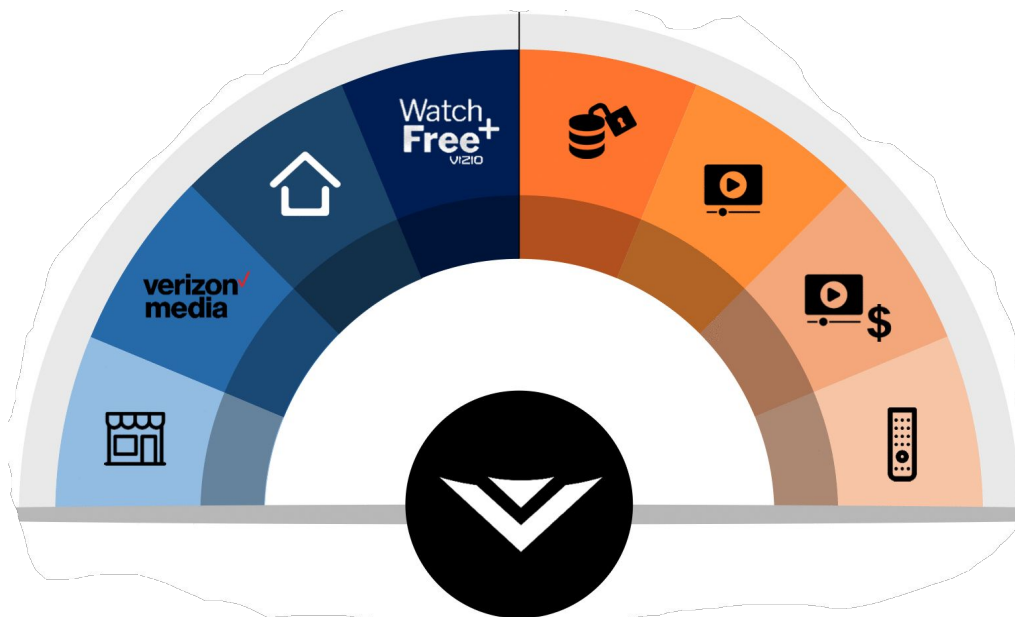


Advertising

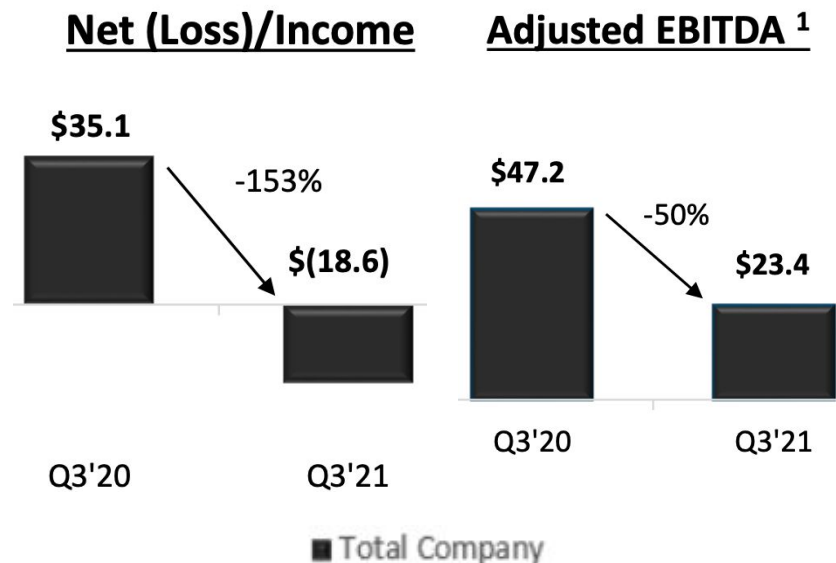
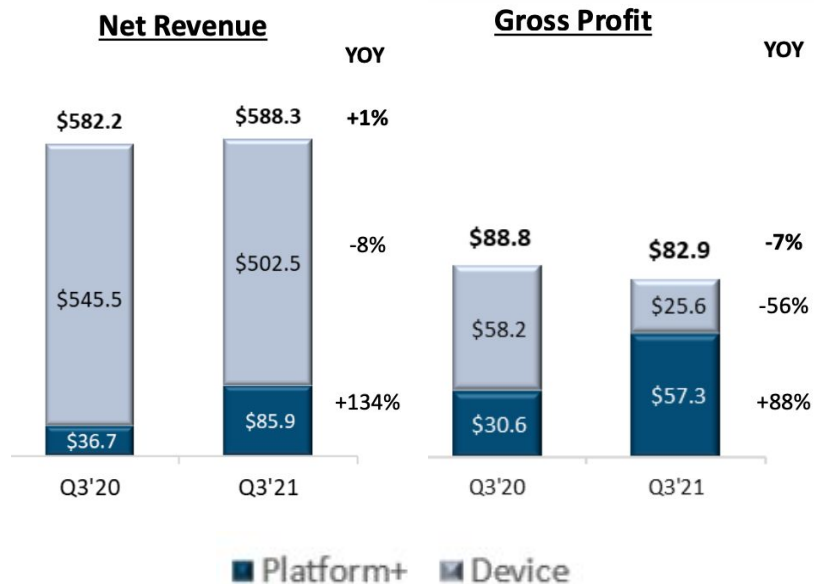
- **Ad-Supported Content:** Ad inventory on services such as WatchFree, VIZIO Free Channels, and certain third-party AVOD services
- **Home Screen:** Ad placements on SmartCast home screen by streaming services, studios, and other consumer brands
- **Off-platform Ads:** VIZIO cross platform ad retargeting product Household Connect will be strengthened via Verizon Media's unified ad platform
- **Partner Marketing:** Branding opportunities through large in-store presence

Non-Advertising

- **Data Licensing:** Fees from ad tech companies, advertising agencies, and networks to license data generated from VIZIO Inscape technology to inform their ad buying decisions
- **SVOD & vMVPD:** Revenue shared by SVOD and vMVPD services on new user subscriptions activated or reactivated through platform
- **PVOD & TVOD:** Revenue shared by PVOD and TVOD services for purchases made on VIZIO platform
- **Branded Buttons:** Partners who want to place a button for their service on VIZIO remote controls so consumers can have quick access to their service



Financial highlights



Platform+ Highlights

- 2022 upfront negotiations: secured brand and agency **advertising commitments** in excess of \$100 million
- Increased direct advertising client base by **over 50%**
- Increased average revenue per advertiser by **over 200%**
- Expanded app partnerships: HBO Max, fuboTV, BET+, PBS, and Funimation
- Launched WatchFree+ and released VIZIO Features

Device Highlights

- **#2 bestselling TV** brand in the US
- **#1 bestselling sound bar** brand in the US
- Increased premium units shipped by **107%** quarter-over-quarter
- Achieved multiple **product awards** across premium TV lineup from Reviewed.com, TechHive and Wired
- Expanded number of gaming certified TVs sold

III. Valuation

Company	Market Cap	Revenue Growth YOY	Forward P/S	Operating Margin	Profit Margin
Vizio	\$4.01B	11.20%	1.61x	-2.48%	-3.16%
Sonos	\$4.27B	5.20%	2.27x	4.42%	4.71%
Dolby	\$9.12B	-6.43%	6.58x	19.56%	19.05%
Roku	\$37.00B	57.53%	10.11x	10.13%	10.14%
TCL	\$1.38B	8.43%	0.14x	3.85%	2.98%
Median	\$4.27B	8.43%	2.27x	4.42%	4.71%

Positives

- **Revenue Growth** – Over the past year Vizio has outperformed its small-to-mid cap competitors in the Home Technology market
- **High Optimism for growth** – The low P/S ratio shows that the stock is undervalued and if sales continue to grow and margins shrink, there is significant upside potential

Negatives

- **Negative Margins** – Vizio is still operating under a negative operating and profit margin, but software and ad revenues are continuing to increase

Sensitivity Analysis (35% Implied Upside)

		Exit Multiple				
		11.00x	11.50x	12.00x	12.50x	13.00x
WACC	9.41%	\$ 26.73	\$ 27.70	\$ 28.67	\$ 29.64	\$ 30.61
	9.91%	\$ 26.17	\$ 27.12	\$ 28.07	\$ 29.02	\$ 29.97
	10.41%	\$ 25.63	\$ 26.56	\$ 27.49	\$ 28.41	\$ 29.34
	10.91%	\$ 25.11	\$ 26.01	\$ 26.92	\$ 27.82	\$ 28.73
	11.41%	\$ 24.59	\$ 25.48	\$ 26.36	\$ 27.25	\$ 28.14

Model Assumptions

- Sizeable upside assuming steady 1.5% top line growth
- EV/EBITDA multiple set at 12.0x

WACC Assumptions

Assumptions	
Tax Rate	22%
Exit Multiple (EBITDA)	12.0x
WACC Calculation	
Risk Free Rate	1.43%
Beta	1.2
Market Risk Premium	7.50%
Cost of Equity	10.4%
Pre-Tax Cost of Debt	1.69%
Market Cap	\$ 3,250
BV of Debt	\$ 7
Equity-to-Value	99.8%
Debt-to-Value	0.2%
WACC	10.41%

IV. Conclusion

		Risk	Mitigation
1	Lack of Return on Invested Capital	<ul style="list-style-type: none"> Although Vizio has a stable balance sheet, reflection is required on return on invested capital 	<ul style="list-style-type: none"> Continue investing in talent and improvements within the R&D sector, especially R&D for their platform+ side Continue growing revenue
2	Supply Chain Bottleneck	<ul style="list-style-type: none"> One of Vizio's main manufacturing facilities is located in China, where the power crunch has contributed to the global supply chain bottleneck 	<ul style="list-style-type: none"> Vizio's production in their US and Mexico production facilities will mitigate large supply chain issues
3	Increasing Competition	<ul style="list-style-type: none"> Vizio's growth In The Flat Screen TV Market deals with severe competition from international and domestic rivals together with rapidly changing trends of entertainment industry and consumer preferences The business experiences an increased threat of replication of its hardware-software business design by different competitors 	<ul style="list-style-type: none"> Stable hardware reputation will act as a hedge for platform+ performance Diversification of hardware products provides Vizio flexibility in terms of changing consumers preferences

Investment in both Value and Growth

- Diverse sources of income: products, capabilities, content, advertising ..
- Strong, steady reputation in hardware rolls over into software investment
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Smartcast Platform Growth

- Platform+ net revenue increased 146% year-over-year to \$66 million
- SmartCast Active accounts increased 43% year-over-year to 14 million
- ARPU increased 91% year-over-year to \$16.76
- SmartCast Active Accounts of 14.0 million, up 35%
- SmartCast Hours of 3.6 billion, up 16%

Industry Tailwinds

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Trim XLC by 1.00%, replace allocation with VZIO

- Our current holdings in Google, Disney, and Comcast account for about 20% of XLC's holdings
- Overexposure in these 3 equities provide reason to trim the XLC
- VZIO will allow M&T to gain a hardware play while also being invested in platform growth

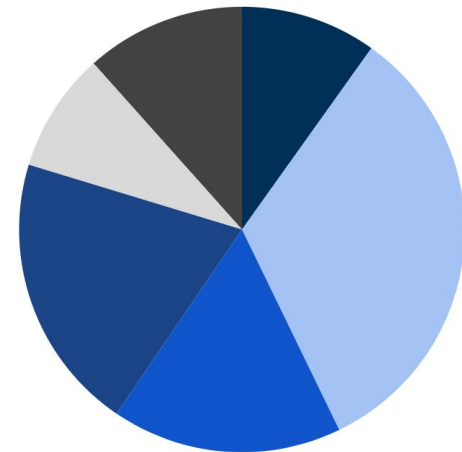
Current Portfolio

● DIS ● GOOGL ● MTCH ● CMCSA ● XLC



Proposed Portfolio

● DIS ● GOOGL ● MTCH ● CMCSA ● XLC ● VZIO



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V. Appendix

Discounted Cash Flow



	Historical				Expected	Projected			
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	1,780.00	1,836.00	2,042.50	2,302.86	2,630.96	3,045.26	3,570.49	4,239.86	4,981.72
% YoY Growth		0.03	0.11	0.13	0.14	0.16	0.17	0.19	0.17
Cost of Goods Sold	16.71	16.72	17.46	21.99	27.75	35.17	44.81	57.45	69.99
Gross Profit	1,763.30	1,819.28	2,025.04	2,280.87	2,603.20	3,010.09	3,525.68	4,182.41	4,911.73
% Margin		0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99
EBITDA	-4.70	36.50	137.00	152.16	171.21	195.12	225.21	263.19	311.73
% Margin	0.00	0.02	0.07	0.07	0.07	0.06	0.06	0.06	0.06
Less: Depreciation	5.00	4.10	2.30	0.29	-2.30	-5.71	-10.26	-16.42	-16.81
EBIT	-9.70	32.40	134.70	151.87	173.51	200.83	235.47	279.61	328.54
Less: Taxes	-2.13	7.13	29.63	33.41	38.17	44.18	51.80	61.51	72.28
EBIT*(1-T)	-7.57	25.27	105.07	118.46	135.34	156.65	183.67	218.10	256.26
Add: Depreciation	5.00	4.10	2.30	0.29	-2.30	-5.71	-10.26	-16.42	-16.81
Less: Inc. in NWC		209.00	41.10	15.97	10.66	17.29	19.89	22.26	35.96
Less: CapEx	0.40	0.80	1.80	4.33	7.58	11.82	17.43	24.94	26.81
FCF to Firm	-2.97	-180.43		98.44	114.79	121.83	136.08	154.48	176.69
PV Factor				0.91	0.82	0.74	0.67	0.61	0.55
PV of FCF				89.16	94.17	90.51	91.57	94.15	97.53
PV of Terminal Value								1,924.78	
Firm Value									2,384.3
Less: Debt	\$								7
Equity Value									2,377.6
Shares Outstanding									87
Share Price	\$								27.49

	Historical				Expected	Projected				Steps	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	1-5Y	6-10Y
Drivers:											
Revenue Growth		3.15%	11.25%	12.75%	14.25%	15.75%	17.25%	18.75%	17.50%	1.50%	-1.25%
Margin Expansion:											
Gross Margin		99.09%	99.15%	99.05%	98.95%	98.85%	98.75%	98.65%	98.60%	-0.10%	-0.05%
EBITDA Margin		1.99%	6.71%	6.61%	6.51%	6.41%	6.31%	6.21%	6.26%	-0.10%	0.05%
Depreciation (% of Sales)		0.2%	0.1%	0.01%	-0.09%	-0.19%	-0.29%	-0.39%	-0.34%	-0.10%	0.05%
Net Working Capital:											
A/R		360.70	405.60	457.93	523.90	607.23	712.94	847.76	995.41	365	365
DSO		71.71	72.48	72.58	72.68	72.78	72.88	72.98	72.93	0.10	-0.05
Inventory		13.30	10.50	17.20	16.70	21.18	26.99	34.62	42.17	365	365
DIO		290.41	219.49	219.59	219.69	219.79	219.89	219.99	219.94	0.10	-0.05
A/P		165.00	166.00	209.06	263.87	334.38	426.01	546.20	665.45	365	365
DPO		3,602.84	3,470.02	3,470.12	3,470.22	3,470.32	3,470.42	3,470.52	3,470.47	0.10	-0.05
NWC		209.00	250.10	266.07	276.74	294.03	313.92	336.18	372.14		
Change in NWC		209.00	41.10	15.97	10.66	17.29	19.89	22.26	35.96		
CapEx (% of Sales)		0.04%	0.09%	0.19%	0.29%	0.39%	0.49%	0.59%	0.54%	0.10%	-0.05%