In Television, Dongles Are Dead And Sets Are Hot

By Jack Hough

In television, the dongle is dead, and set makers are suddenly gaining show-business swagger. Stock buyers should consider newly public **Vizio Holding**, which completed "upfront" advertising negotiations with more than $100 million in commitments, up fourfold from last year.

Let me explain. Two decades ago, before **Netflix** (ticker: NFLX) went into streaming, TVs seemed as dumb as toaster ovens. Awkward, too: A top-of-the-line set measured 40 inches, cost several thousand dollars, and weighed nearly as much as a car engine. Then came slimmer and lighter "smart TVs"—with ugly software that couldn't be updated, since few users connected their sets to the internet.

Enter the dongle: Cheap, small devices like the Amazon Fire Stick or Google Chromecast, along with Apple TV set-top boxes, gave old sets sleek operating systems and provided access to Netflix and more.

Today, that's changing. Only 7% of time spent watching a Vizio set isn't spent on Vizio's own operating system. Dongles are out, in other words.

Why? Earlier this year I bought three sets measuring 43, 50, and 75 inches. Combined, they cost less than half one of those old 40-inchers, including what I paid my painter to hang the smaller ones on articulating arms. The sets connect over Wi-Fi, use a smartphone-like operating system, and come with their own free bundle of hundreds of streaming channels. My old streaming devices are sitting in a bin for spare cables and connectors.

"We've been working on our operating system, SmartCast, for over seven years now, and have invested hundreds of millions of dollars," Vizio (VZIO) founder and CEO William Wang tells me. "Our monetization effort really started less than two years ago."

That effort includes selling display ads for the operating system and commercials for Vizio's free channel bundle, called WatchFree+. Paid streaming services, which are ravenous for new subscribers, are a natural fit—big spenders can splash a hit show on Vizio's home page, and a select few get dedicated remote-control buttons for one-touch access to their apps. Detergent and car sellers, meanwhile, can get the word out over the free channels.

About those: FASTs, or free ad-supported TV services, are bundles of channels that serve up shows at scheduled times, like traditional TV. AVODs, or ad-supported video on demand services, offer free shows anytime. If you don't like those acronyms, wait—executives change them up every few years. Top FASTs include ViacomCBS' Pluto TV, Fox's Tubi, the Roku Channel, Xumo, Crackle, and free tiers of paid services like Peacock. The content is mostly TV comfort food, not big-budget originals.

One of the favorite acronyms of the moment is ACR, or automatic content recognition, which can improve advertising results. It captures pixels from viewers' shows and compares them with a database to tell what they're watching across any service, live or recorded. Viewers opt in when they set up their TVs and elect to, say, receive more accurate show recommendations. ACR data can be paired with user internet addresses to tell advertisers which websites and apps viewers have visited. Vizio bought an ACR company in 2015.

TV makers have a natural advantage in the world of FASTs and ACR data, because they get to users first, before the apps, and because they're in a position to distribute ads across many services. If Vizio is serving the ads, for example, it can make sure a viewer who has already seen a beer pitch three times on one app doesn't see it again on another app. That and the dongle slump helps explain why **Amazon.com** (AMZN) recently launched its own line of TVs.

Taiwan-born Wang, who moved to the U.S. at 12, and who in 2000 survived a runway plane collision that killed half of his fellow passengers, says he's not intimidated by going up against technology conglomerates.

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"I walked into Costco and told them that we're going to be the next Sony, and they kind of laughed at me," Wang says. Today, **Samsung Electronics** (005930.South Korea) leads the U.S. in smart TVs, with close to a one-third share. Neck-and-neck in the next three spots are **TCL Technology Group** (000100.China), Vizio, and **LG Electronics** (066570.South Korea), which combine for just over a one-third share. **Sony Group** (SONY) has only a few percent.

Vizio reminds BofA Securities analyst Wamsi Mohan of the **Roku** (ROKU) of several years ago. Vizio has 14 million active subscribers to Roku's 55 million. Mohan is bullish on both.

"The content gross profit is going to blow past the TV gross profit just in a year's time," he says of Vizio. "And the valuation is really based like a hardware company, as Roku was four years ago."

Roku licenses its operating system to set makers; China-based TCL is a major partner. The company went public in 2017 at $14 a share, and recently traded at $334, for a stock market value of over $44 billion. Revenue this year is pegged at $2.8 billion, up 60%.

Vizio went public this past March at $21 a share. It recently traded below $20, for a market value of $3.7 billion. Wall Street predicts revenue of $2.4 billion this year, up 15%.

For now, Vizio's growth is dominated by devices. Last quarter, device revenue fell 9%, to $336 million. But Vizio's other revenue, including advertising and content licensing, jumped 146%, to $66 million.

This is the first year that the company presented to advertisers at the streaming world's equivalent of traditional TV's upfronts, where show owners pitch to ad buyers. Vizio's average revenue per user, or ARPU, which doesn't count hardware sales, increased 90% year over year, to $16.76 last quarter, and is higher than Roku's at a similar stage in its growth. Last quarter, Roku's ARPU was $36.46.

And what is Wang watching on TV these days? Sundays are for football, and Apple might be pleased to hear that he's on a *Ted Lasso* tear. ■

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