

GoPro, Inc. (GPRO): Buy @ \$11.00

Buy Thesis: We are upgrading our rating from a Sell to a Buy and raising our Price Target from \$7.00 to \$11.00. We view GoPro’s 4Q16 results as impressive and that management – after dropping the ball twice in 4Q16 – can finally execute an effective turnaround strategy in 2017. We believe GoPro’s brand still remains strong among existing users and new product offerings, like the *Karma* drone and the *Hero5 Black* will continue to draw new entrants in the action camera space. We are optimistic GoPro can continue to drive double-digit top-line growth in the mid-20s as it continues to expand further in the new international markets of Asia-Pacific. We are also cautiously optimistic that the manufacturing issues that have plagued the new product launches in 4Q16 have now been effectively dealt with.

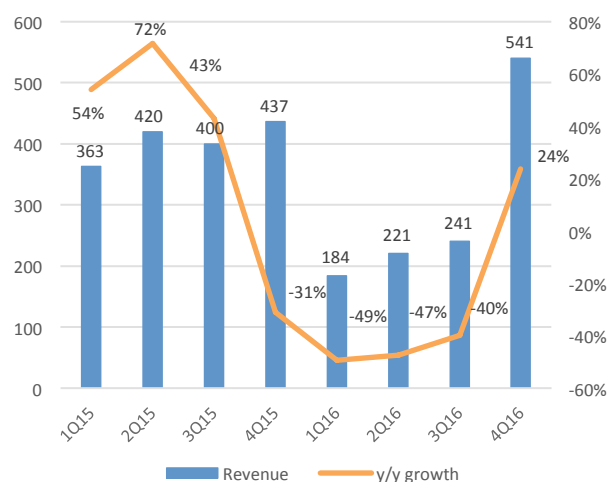
TABLE 1: GoPro 4Q16 Results

4Q16 Results			1Q17 Guidance			4Q16 Results			1Q17 Guidance		
EPS	Cons.	Result	EPS	Cons.	Result	Total Rev.	Cons.	Result	Total Rev.	Cons.	Result
0.29	0.21	beat	n/a	-0.53	n/a	540.62M	575.97M	miss	190-210M	198.96M	in-line

Source: GoPro, Inc. and Estimize.com

I. Solid 4Q16 Results Bodes Well for 2017

FIGURE 1: GoPro Revenue (\$ Million), Y/Y Growth (%)

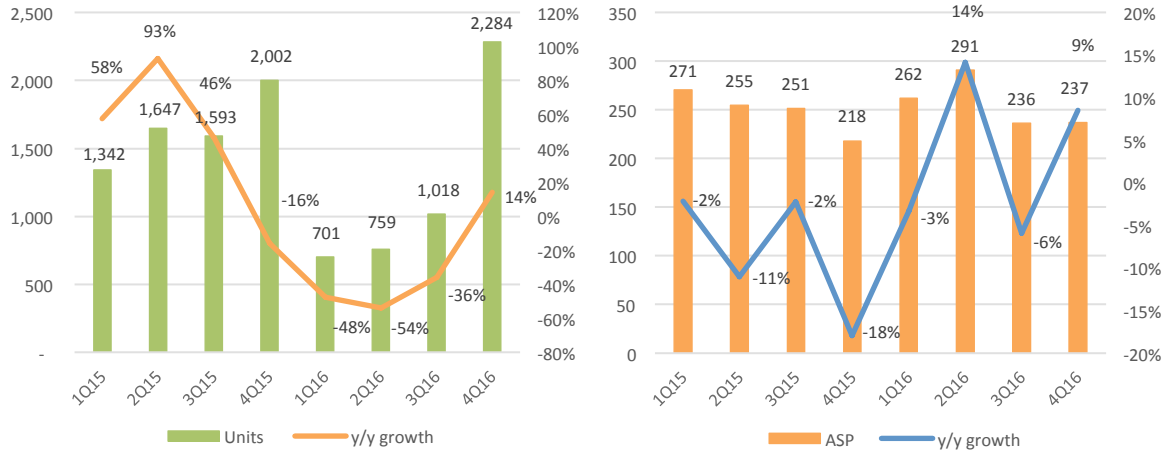


Source: GoPro, Inc.

Despite production mishaps of the *Karma* drone and the shortage of *Hero5 Black* line of cameras in the inventory channel, GoPro still managed to produce its second highest revenue quarter, selling an estimated 2M cameras in 4Q16 (see Figure 1).

Management touted the newly launched *Hero5 Black* as the best-selling digital imaging device in both the U.S. and Europe. Units shipped of roughly 2.3M units (up 14% y/y) in 4Q16 also far exceeded the 2.0M units shipped in the same period last year (see Figure 2 left). Average selling price (ASP) of \$237 in 4Q16 was also sequentially stable and up 9% y/y.

FIGURE 2: Units Shipped (in Thousand) Y/Y Growth (%) left chart and ASP (US\$) Y/Y Growth (%) right chart



Source: GoPro, Inc.

However, early production issues of the *Hero5* had a negative effect on unit volume which negatively impacted 4Q16 revenue. The initial scarcity of the *Hero5* in the retail channel had a knock-on effect, resulting in retailers canceling marketing support for the *Hero5 Black* launch. Management cited the lack of retail marketing support during the 4Q16 Holiday season as the main reason for the 4Q16 revenue miss.

Going forward, management also hinted of new cameras (*Hero6*) and new accessories coming out in 2017. Moreover, the new *Karma* drone is now available in limited quantities at select retailers in the U.S. as production is currently being ramped up. The *Karma*, which launched early last quarter had to be pulled from production due to power loss problems from a faulty battery casing. The *Karma* is projected to be available in international markets this spring.

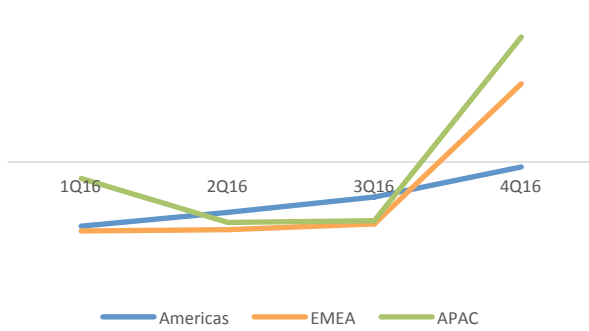
While we are hopeful that the production glitches in 4Q16 have been resolved, we are optimistic that demand for the new *Hero5 Black* will continue to see growing momentum in the U.S. and abroad. Of particular importance is the potential growth opportunity in China. Although still in the early days, GoPro has been scaling slowly in China where sell-through has increased 61% y/y in 4Q16. We believe China will be GoPro’s biggest growth opportunity in the coming quarters.

II. Strong Opportunities in International Growth

GoPro cameras saw a major slowdown in 1H16 with sales down by over 50% y/y in all of the company’s geographic markets (see Figure 3 and Table 2). This was due to the lack of product refresh since the previous version, the *Hero4* was released in 4Q14. The announcement of a new product launch scheduled for 4Q16 caused many GoPro users to delay their purchase.

During the 2H16, sales in the Americas region began to recover in 3Q16, almost turning positive in 4Q16. There was a large pent-up demand in the European (EMEA) and in Asia-Pacific (APAC) as sales saw a sharp turnaround from 3Q16 to 4Q16. Sales in EMEA grew 64.2% y/y in 4Q16 while APAC sales expanded 102% y/y in 4Q16 (see Table 2).

FIGURE 3 and TABLE 2: Revenue Growth by Geography (Y/Y % Change)

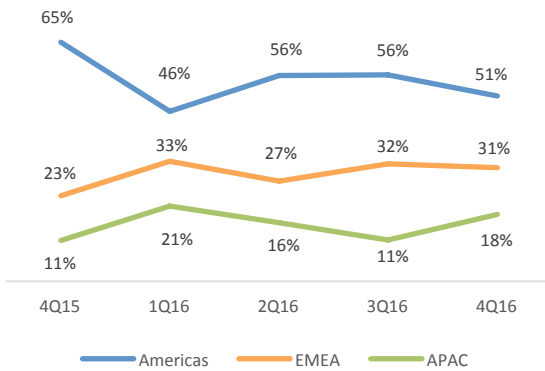


	1Q16	2Q16	3Q16	4Q16
Americas	-52.6%	-41.3%	-28.8%	-4.0%
EMEA	-56.6%	-55.8%	-50.6%	64.2%
APAC	-13.7%	-49.6%	-48.2%	102.0%

Source: GoPro, Inc.

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FIGURE 4: Revenue Mix by Geography (%)



Revenue mix also continues to shift to regions with the highest growth opportunities. For example, the Americas where the market is highly saturated, the revenue mix has gone from 65% in 4Q15 to just over 51% in 4Q16 (see Figure 4). In the EMEA region, revenue mix grew from 23% in 4Q15 to 31% in 4Q16. In Europe, *GfK* reports that GoPro’s unit share of the digital imaging category grew roughly 1 percentage point to 12.2% and the *Hero5 Black* sold through more units in a single quarter than any other GoPro camera.

Source: GoPro, Inc.

In APAC, the revenue mix also grew from just 11% in 4Q15 to ~18% in 4Q16. We believe APAC represents the largest growth opportunity for GoPro cameras particularly in China. Although GoPro has a major competitor in China, management feels confident that its brand and cameras are differentiated enough to compete effectively and grow its user base.

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