

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

Buy Thesis: We maintain our Buy rating and PT of \$11. GoPro’s Turnaround Plan seems to show increasing traction in 1Q17. We remain cautiously optimistic that top-line growth could reach the high teens (17-19% y/y) in 2H17 with a return to profitability driven by the product launch of the new *Hero6* action camera and by the increasing penetration of the *Karma* drone in the U.S., Europe and Asia-Pacific. We believe management is executing their strategic turnaround well by driving down supply chain costs and containing operating expenses. We believe investor sentiment will likely improve in 2H17, laying the path to higher valuation multiples.

TABLE 1: GoPro 1Q17 Results

1Q17 Results			2Q17 Guidance			1Q17 Results			2Q17 Guidance		
EPS	Cons.	Result	EPS	Cons.	Result	Total Rev.	Cons.	Result	Total Rev.	Cons.	Result
-0.44	-0.46	beat	n/a	-0.19	n/a	218.61M	208.28M	beat	260-280M	243.59M	beat

Source: GoPro, Inc. and Estimote.com

I. Turnaround Plan Showing Positive Momentum in 1Q17

We believe GoPro’s top-line growth reached an inflection point to the upside in 4Q16 and continued to show momentum in 1Q17. According to *NPD*, GoPro had the three top-selling cameras in the U.S. on a unit basis in the digital imaging category. Moreover, the premium priced *Hero5 Black* was the best-selling camera on both the unit and dollar basis. Revenue reached an all-time high of \$541M (+24% y/y) in 4Q16 and continued to show strength in 1Q17 hitting \$219M for a 19% y/y growth rate (see Figure 1, left).

FIGURE 1: Revenue in (\$ Million) Y/Y Growth (%) left chart and ASP (US\$) Y/Y Growth (%) right chart



Source: GoPro, Inc.

We are also encouraged by the strength in ASPs which posted gains of 9% y/y and a 13% y/y in 4Q16 and 1Q17 respectively (see Figure 1, right). GoPro posted an ASP of \$296 for 1Q17, its highest ever. Upside in ASPs was driven by the reduction of lower-priced SKUs, the re-launch of the *Karma* drone, strong accessory revenue from *Karma Grip* as well as customer preference for the premium-priced *Hero5 Black*. In addition, GoPro shipped 738K camera units in 1Q17 with the upper-tier \$399 and above cameras accounting for over 60% of total camera units shipped.

We believe the integration of the smartphone into GoPro’s ecosystem has enabled higher adoption rates by first-time users. The smartphone serves as a convenient tool for managing and sharing the content shot on a GoPro camera. Moreover, the content can be easily uploaded in social media sites where a wider distribution is possible.

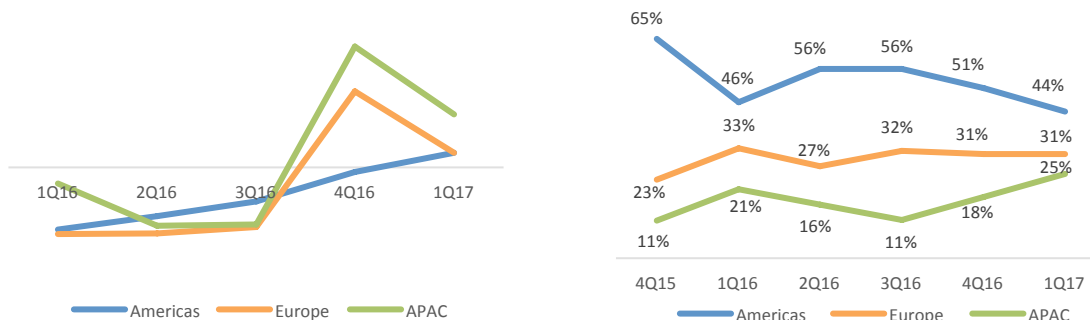
Management stated that there were 5.2M installs of GoPro’s quick mobile editing app in 1Q17, more than 3x the number of installs in the first quarter of last year. This in turn led to a 160% y/y increase in monthly active users. Furthermore, Google reported that YouTube videos attributed to GoPro were up 67% y/y in 1Q17. Google also recently published a study of teens aged 13 to 17 that placed GoPro as the sixth coolest brand out of 122 companies.

We believe traction in both top-line revenue and ASP growth may be sustainable, particularly in 2H17 with the launch of the new *Hero6* action camera and continued penetration of the *Karma* drone in the U.S. as well as in Europe and APAC where the *Karma* drone was just recently launched.

II. Revenue Growth in All Regions Turns Positive in 1Q17

Another encouraging sign that the turnaround plan is gradually beginning to take hold is that revenue growth in all of GoPro’s geographies has turned positive in 1Q17.

FIGURE 2: Revenue Growth by Geography (Y/Y % Change) left chart and Revenue Mix by Geography (%) right chart



Source: GoPro, Inc.

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

	1Q16	2Q16	3Q16	4Q16	1Q17
Americas	-52.6%	-41.3%	-28.8%	-4.0%	12.2%
Europe	-56.6%	-55.8%	-50.6%	64.2%	12.6%
APAC	-13.7%	-49.6%	-48.2%	102.0%	45.1%

Source: GoPro, Inc.

After undergoing negative growth for most of FY2016, growth in the Americas region (44% of total revenue) finally turned to a positive 12.2% y/y in 1Q17 (see Figure 2, left and Table 2). Growth in Europe (31% of total revenue) has weakened in 1Q17 dropping to 12.6% y/y from

64.2% y/y in 4Q16, although this could be due mainly to seasonality. Meanwhile, APAC (25% of total revenue) continues to show healthy demand growth at 45.1% y/y in 1Q17 (see Figure 2, left and Table 2).

One of GoPro's priorities in FY2017 is to grow their international business. In 1Q17, about 60% of total revenue was generated in markets outside the U.S. (see Figure 2, right). While Europe seems to have stabilized at ~31% of revenue mix, APAC's total revenue share has grown steadily from 11% in 3Q16 to ~25% of total revenue in 1Q17. The growth of GoPro's international business has been impressive, considering that the company opened its first international sales and marketing office in Europe just three years ago.

GoPro's strategy of entering new markets abroad entails putting small teams on the ground with a local approach. The company has also invested in localizing its software apps. For example, in the past seven months, GoPro has localized its video Capture App and camera firmware to 10 local languages, including French, German, Korean and simplified Chinese, resulting in ~70% to 90% of consumers in these countries using GoPro's action cameras in their own language.

The investment in language localization has yielded positive results for GoPro. In Japan, revenue grew 83% y/y in 1Q17 and category dollar share grew from 1.4% to 3.4%. In China, 1Q17 revenue was up 59% y/y and unit share also increased from 1.7% to 3.1%. In addition, Huawei, one of the world's top smartphone manufacturers announced last February that GoPro's editing software will be pre-installed on all of its new smartphones. Huawei has a high smartphone market share in both Asia and Europe, giving GoPro the opportunity to introduce its brand and products to millions of new consumers in those markets.

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Analyst Certification

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