

## GoPro, Inc. (GPRO): Short @ \$7.00

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**Short Thesis:** We Maintain our Short Thesis on GoPro based on a Lack of Product Visibility Heading into 2H16. Management did not provide any meaningful data point on its next product release for both *Hero5* (sports/action camera) and *Karma* (drone) despite repeated inquiries by analysts at the last 2Q16 earnings call. Difficult to project how GoPro can be profitable in 4Q16 (despite management's assertions) when consumers are largely fatigued with purchasing mobile devices.

**TABLE 1: GoPro 2Q16 Results**

2Q16 Results			3Q16 Guidance			2Q16 Results			3Q16 Guidance		
EPS	Cons.	Result	EPS	Cons.	Result	Total Rev.	Cons.	Result	Total Rev.	Cons.	Result
-0.52	-0.57	beat	n/a	-0.36	n/a	220.76M	198.56M	beat	n/a	304.51M	n/a

Source: GoPro, Inc. and Estimote.com

GoPro released 2Q16 results with a loss per share of (52 cents) smaller than expected, beating consensus estimate of a loss of (57 cents). Revenue also came in stronger than expected with \$220.76M beating consensus of \$198.56M.

Management also reaffirmed its revenue outlook for the year, expecting sales to be between \$1.35B and \$1.5B. Analysts expect average revenue of \$1.34B. With 1H16 already done, GoPro needs to meet roughly 71% of its revenue in 2H16 in order to hit its full-year revenue target. This is much higher than the past 4 years, where GoPro only had to hit 58% of its revenue in the second half of the year in order to meet its own forecast.

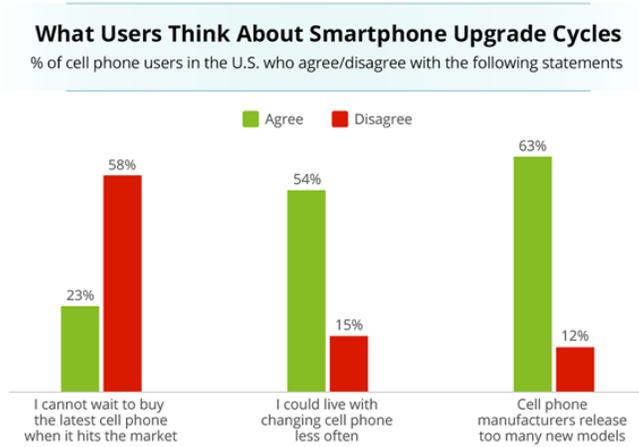
### **2Q16 Highlights**

- Revenue of \$221M (up 20% q/q) driven by an 8% increase in units shipped to 759k; ASP increased 14% y/y
- Inventory declined \$50M (down 36% q/q) to reach \$90M, its lowest inventory level since 2Q14
- Guided non-GAAP gross margin of 40% +/- 1% for 2H16
- Expects to be net income profitable in 4Q16
- GoPro mobile app was downloaded 2.6M times in 2Q16, totaling over 30M cumulative downloads
- 2Q16 installs of *GoPro Studio* were 1.5M, totaling over 17.7M cumulative installs, with average daily video exports up 15.3% y/y to over 43,500
- Announced exclusive partnership with Reliance Digital, India's largest consumer electronics retailer that will put GoPro cameras, mounts and accessories on the shelves of up to 1,800 Reliance Digital stores across India

**I. Consumer Fatigue with Mobile Devices May Translate to Action Cameras/Drones**

A survey conducted by *Greenpeace* suggests that most phone users in the U.S. are a bit fatigued with how frequently manufacturers upgrade their handsets. For instance, more than half of survey respondents say they could live with changing phones less often (see Figure 1).

**FIGURE 1: Consumers are Not So Excited with New Mobile Device Product Releases**



Source: Greenpeace and Statista

GoPro’s core products are niched in the action camera space. With the introduction of their latest drone *Karma*, the company is hoping to break out of this niche and hoping to appeal to a much wider consumer audience. However, with the latest smartphone cameras being very sophisticated in capturing pictures and videos in a range of conditions (low light, fast action, etc.) there is a good likelihood that consumers may just opt to use their current smartphone camera instead of buying a GoPro sports/action camera.

In addition, GoPro cameras are known for their ruggedness and can last a few years. So there’s no reason for current GoPro users to upgrade to the new *Hero5* slated for release this Fall.

The drone space is already crowded with drones that can capture high-resolution video and pictures. GoPro management has argued that current drone brands are not household names unlike the GoPro brand. While this statement is true, it is not a compelling enough reason why consumers may want to buy any drone this holiday, especially since they are not a novelty device anymore and must be registered with the FAA (Federal Aviation Administration) who have strict regulations over consumer drones.

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