

GoPro, Inc. (GPRO): Buy @ \$13.00

Buy Thesis: We maintain our Buy rating and raise our PT from \$11 to \$13. Management continues to successfully execute its Turnaround Plan as revenue and unit shipment showed positive momentum in 1H17. Moreover, sales growth in all of GoPro’s geographic markets has been on an upward trajectory in 2Q17. Most noteworthy is the 26% y/y growth in the Americas region, since the U.S. has been largely considered to be a mature market. We view the upcoming release of the new *Hero6* later in the year as a positive catalyst capable of further boosting top-line growth and potentially leading to profitability in FY2017.

TABLE 1: GoPro 2Q17 Results

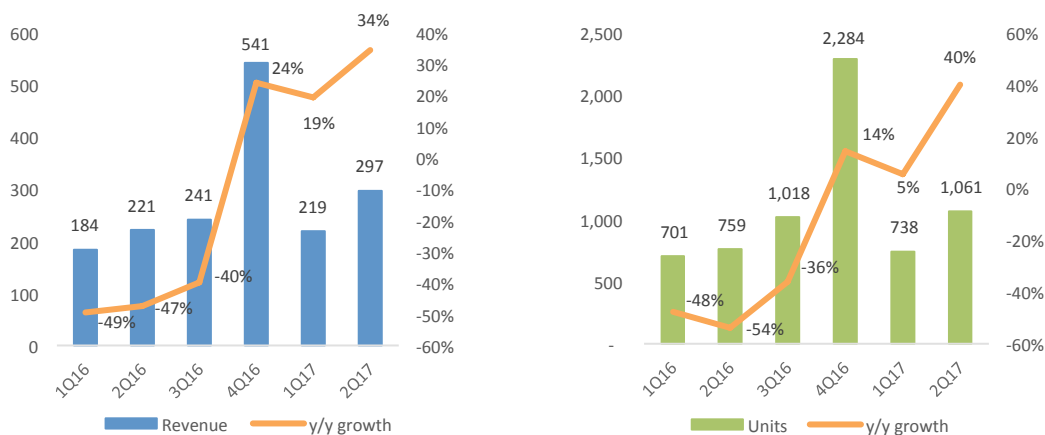
2Q17 Results			3Q17 Guidance			2Q17 Results			3Q17 Guidance		
EPS	Cons.	Result	EPS	Cons.	Result	Total Rev.	Cons.	Result	Total Rev.	Cons.	Result
-0.09	-0.26	beat	(0.11)-(0.01)	-0.14	beat	296.5M	270.9M	beat	290-310M	279.5M	beat

Source: GoPro, Inc. and Estimize.com

I. Revenue and Unit Shipment Growth Gaining Traction

GoPro’s 2Q17 revenue and unit shipments continue to gain traction as consumer demand and sell-through of *Hero5* action cameras and *Karma* drones continue to outperform. Revenue growth of 34% y/y was the highest in six quarters (see Figure 1 left) while record 2Q17 shipments of over 1M units led to a 40% y/y growth (see Figure 1 right).

FIGURE 1: Revenue in (\$ Million) Y/Y Growth (%) left and Units Shipped (Thous.) Y/Y Growth (%) right



Source: GoPro, Inc.

We believe the company's strategy of integrating its products into the smartphone ecosystem is slowly beginning to pay off. Management stated that for 3 consecutive quarters, the *Hero5 Black* was the best-selling camera in the U.S. while the *Karma* drone was the second highest selling drone brand in the U.S.

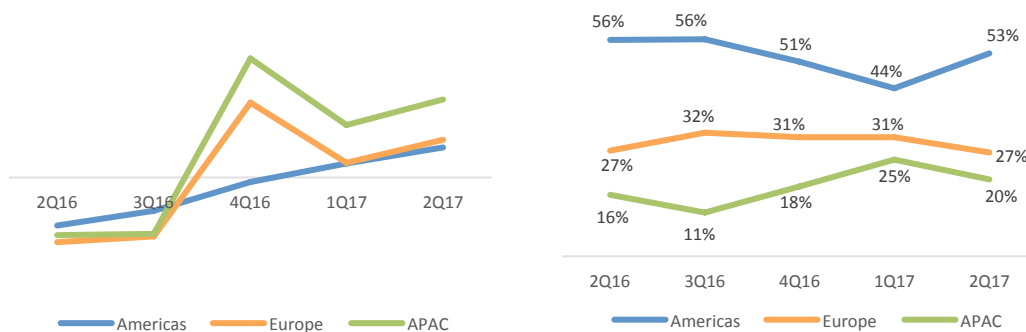
Despite the strong sales momentum, the company was able to constrain production, limiting inventory growth (down 39% y/y) and clearing the supply channel for new product releases later in 3Q17 or 4Q17. Management stated that despite leaving some extra money on the table, it nonetheless considered this strategy prudent.

The limited production run also led to a sequential improvement in 2Q17 gross margin (36%) led by gross margin strength of *Hero5 Black* and *Hero5 Session*. Management also forecasted that gross margins on its upcoming *Hero6* would be higher than the current *Hero5* camera.

II. Geographic Growth for All Regions Showing Positive Momentum

Revenue grew on all geographic segments in 2Q17. After struggling with negative growth in 1H16 in all of its geographic segments, revenue growth in 1H17 gradually gained traction in the Americas, Europe and APAC (see Figure 2 left and Table 2). Management stated that on a global basis, they were seeing about a 13% y/y sell-through growth in the \$300 and above price point.

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



Source: GoPro, Inc.

Most encouraging is the return of positive growth in the Americas region. Sales in the Americas region grew by 26% y/y pushing up the revenue mix from 44% of sales back up to 53% (see Figure 2 right). The positive shift is telling, since the U.S. smartphone market has been largely considered to be a mature market not capable of supporting any meaningful growth.

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

	2Q16	3Q16	4Q16	1Q17	2Q17
Americas	-41.3%	-28.8%	-4.0%	12.2%	26.0%
Europe	-55.8%	-50.6%	64.2%	12.6%	32.1%
APAC	-49.6%	-48.2%	102.0%	45.1%	67.0%

Source: GoPro, Inc.

Revenue growth in APAC (67% y/y) was the strongest, outpacing the growth in Europe (32.1% y/y) by two times and around 2.5x the growth in the Americas region (26% y/y). In Japan, camera unit sales were up 164% y/y and dollar sales were up 147% y/y. Moreover, in China, a top 10 growth market for GoPro, unit sell-through was up 57% y/y in 2Q17. Furthermore, China has the second largest user base for GoPro's *Quik App*, a trend that indicates strong consumer engagement in a massive market.

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Analyst Certification

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