

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

**Short Thesis:** GoPro cameras are a niche product sold to the sports enthusiast crowd. We do not see any pressure in ASPs in the short term as sport enthusiasts are willing to pay up for new GoPro cameras. However, GoPro needs to introduce new models with added features each year to induce its core user base to upgrade. As technology in new smartphone cameras also improves every year, we see GoPro’s total addressable market (TAM) declining. Attempts to diversify its product base to consumer drones may also have limited success as DJI and other drone manufacturers already have the scale to dominate the space. Moreover, GoPro’s new drone – the *Karma* – released on October 23<sup>rd</sup> has already been recalled due to faulty battery problems after just two short weeks in the market. Faulty battery units caused the drone to lose power in mid-flight and crash precipitously afterwards. While *Karma* was projected to contribute ~10% to 4Q16 sales, we are lowering our projected 4Q sales estimate. We also see a risk that GoPro could miss its 4Q16 sales forecast.

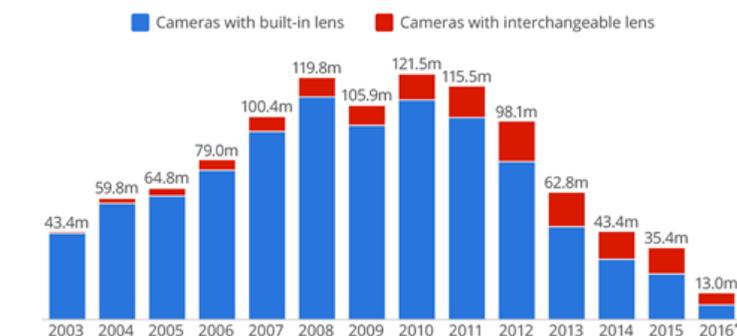
**TABLE 1: GoPro 3Q16 Results**

3Q16 Results			4Q16 Guidance			3Q16 Results			4Q16 Guidance		
EPS	Cons.	Result	EPS	Cons.	Result	Total Rev.	Cons.	Result	Total Rev.	Cons.	Result
-0.60	-0.37	miss	0.30	0.28	beat	240.57M	308.61M	miss	625.0M	590.14M	beat

Source: GoPro, Inc. and Estimote.com

### I. Rapid Decline in Total Addressable Market (TAM)

**FIGURE 1: Worldwide digital camera shipments by Camera & Imaging Products Association**



\* January-July  
 Camera & Imaging Products Association (CIPA) is an international industry association.  
 Members include Olympus, Casio, Canon, Kodak, Sony and Nikon among others.

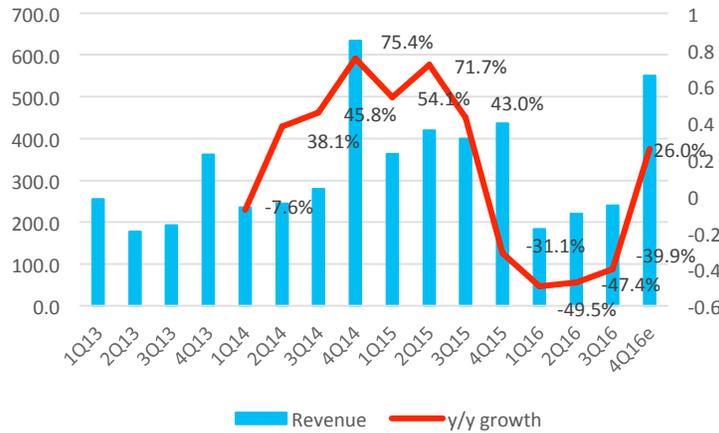
Source: Business Insider, 9/09/16

As smartphone cameras become more sophisticated in capturing images and video, digital camera manufacturers like Casio, Canon, Kodak, Nikon and others are seeing rapid declines in their TAM. Figure 1 shows that unit shipments of digital cameras fell from a high of 121.5M units in 2010 to an estimated 13M units in the first half of 2016. Compact cameras have been hit especially hard.

Moreover, as apps like Instagram and Snapchat become more prevalent in smartphones, the TAM of digital cameras will become increasingly niched. While GoPro's new software makes it easier to upload and store video and images into the cloud, the ubiquity of smartphones and integrated social media apps makes it increasingly likely that more users will prefer to use their smartphones to capture fast-action images and video content.

**II. Karma Drone Recall Misses Crucial 4Q16 Holiday Season**

**FIGURE 2: GoPro Revenue (\$ Million), Quarterly**



With the recall of the *Karma* drone, there is a risk that GoPro could miss its 4Q16 sales forecast of \$625.0M (up 160% y/y). We are projecting 4Q16 revenue at \$550.0M (up 26% y/y), below consensus estimate of \$590.14M (see Figure 2).

Even without the drone units, our sales forecast represents a 26% y/y growth for 4Q16, much higher than last year's 4Q15 sales of \$436.6M, which had a growth rate of negative 31.1%.

Source: GoPro, Inc. and Viola Advisory LLC 4Q16 estimate

We are also assuming 4Q16 average ASP of \$275, possibly lower than GoPro's ASP estimate, which likely factored in the \$799 retail price of the *Karma* drone (see Figure 3). When GoPro announced the recall on November 2<sup>nd</sup>, around 2,500 drone units were already sold. Customers were told to return the units for a full refund; as of today, no plans were yet announced on the release date of the new *Karma* drone units.

**FIGURE 3: GoPro Average Selling Price (\$), Quarterly**



Clearly, not having the *Karma* drone on the retail shelves in time for the crucial 2016 holiday season is a big missed opportunity to grow sales momentum heading into 2017, but more importantly, it also hurts the company's credibility with its retail partners and the user base who were already looking forward to it since it was announced early this year.

Source: GoPro, Inc. and Viola Advisory LLC 4Q16 estimate

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