

GoPro, Inc. (GPRO)

\$4.40 (As of 01/02/20)

Price Target (6-12 Months): **\$3.75**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

Summary

GoPro's market share is being threatened by lower-cost alternatives from established industry players like Sony, Xiaomi, Garmin, HTC as well as new entrants, which has led to the increasing commoditization of action cameras. This commoditization hurts GoPro's premium brand image, and weighs on prices. Moreover, the company reaps majority of its revenues from capture devices and, hence, faces a high product concentration risk. In order to maintain its dominant market share, it continues to spend a significant amount on R&D, which erodes margins. The company is also facing multiple operational obstacles, including product recalls, production delays and missed deadlines. However, GoPro intends to expand footprint in emerging markets such as India and remains focused on scaling its CRM efforts to increase customer base.

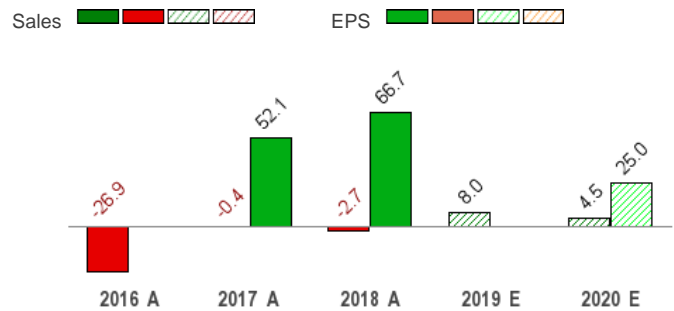
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$7.65 - \$3.25
20 Day Average Volume (sh)	3,159,018
Market Cap	\$685.3 M
YTD Price Change	1.4%
Beta	0.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Audio Video Production
Zacks Industry Rank	Bottom 33% (169 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.5%
Last Sales Surprise	4.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	9.8
PEG F1	1.0
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	242 E	305 E	314 E	414 E	1,296 E
2019	243 A	292 A	131 A	576 E	1,240 E
2018	202 A	283 A	286 A	377 A	1,148 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.09 E	\$0.06 E	\$0.09 E	\$0.37 E	\$0.45 E
2019	-\$0.07 A	\$0.03 A	-\$0.42 A	\$0.80 E	\$0.36 E
2018	-\$0.34 A	-\$0.15 A	-\$0.04 A	\$0.30 A	-\$0.23 A

*Quarterly figures may not add up to annual.

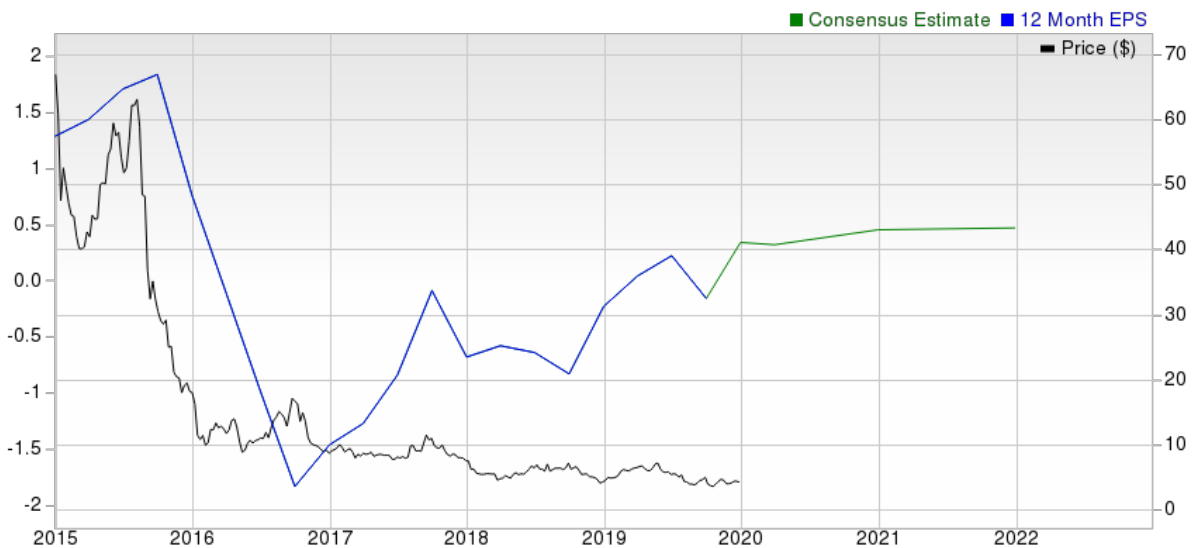
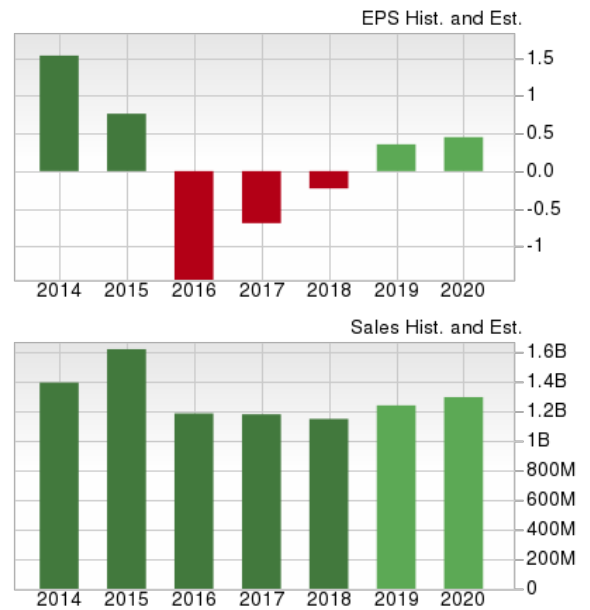
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

Headquartered in San Mateo, CA, GoPro is one of the leading manufacturers of the world's most handy camera and enabler of some of today's most immersive and engaging content. The company made its initial public offering in June 2014. GoPro manufactures mountable and wearable capture devices such as action cameras and related accessories. Its core product is the HERO line of capture devices, which was initially launched in 2009.

In addition, GoPro provides advanced software solutions to enhance its core offerings such as GoPro Studio, GoPro App, among others. The GoPro App aids consumers to effortlessly and wirelessly manage and share content from their capture devices. The GoPro Studio enables customers to edit and share simple and complex videos.

GoPro follows both direct and distribution channel for selling its products. The direct channel (54.7% of total revenues in third-quarter 2019) comprises its website and various types of specialty retailers. The company uses the distribution channel (45.3%) to expand the reach of its offerings throughout national and international markets as well as in several specialty markets. GoPro operates through wholly owned subsidiaries in Germany, Hong Kong, the Netherlands and the Cayman Islands.



Reasons To Sell:

- ▼ GoPro faced multiple operational stumbles including product recalls, messed up launches, production delays and missed deadlines in the past. The company shipped 0.5 million camera units during the third quarter of 2019, down 56.3% year over year. As of Sep 30, 2019, GoPro had \$250 million in inventory compared with \$116.5 million as of Dec 31, 2018. This short-term increase in inventory was due to the delay in shipping HERO8 Black Cameras owing to production delays resulting from shift in production facilities from China to Mexico to nullify the impact of trade war and related tariffs.
- ▼ GoPro operates in a highly-competitive camera and camcorder market. The market has an extensive presence of well-known camera makers such as Canon, Nikon and Olympus. In addition, many electronics giants like Sony, Samsung and Panasonic have penetrated into capture devices market, thereby pushing the level of competition a notch higher. GoPro's market share has been threatened by lower-cost alternatives from established industry players like Sony, Xiaomi, Garmin, HTC as well as new entrants, which have led to the increasing commoditization of action cameras. This commoditization hurts GoPro's premium brand image, and impacts prices and margins.
- ▼ GoPro reaps majority of its revenues from capture devices and, hence, faces a high product concentration risk. Moreover, the company has been witnessing huge competition between its new and old products. These persistent demand issues could drag down its top-line growth in coming times, even as it strives to expand its user base and explore revenue streams. Constrained demand and price cuts might impact the top line in the coming quarters.
- ▼ In order to maintain its dominant market share, the company continues to spend a significant amount on R&D, which can put pressure on margins. Although it is utilizing R&D more efficiently, increasing competition has put the pricing under pressure, as evidenced by the company's recent pricing actions. Additionally, as GoPro operates in consumer goods sector, it has to considerably invest for advertising and marketing, as failure to do the same impacts consumer demand.

GoPro operates in an intensely competitive camera and camcorder market, and remains susceptible to high product concentration risk.

Risks

- GoPro aims to translate the healthy momentum in its business along with controlled cost into growth and profitability in 2019, while limiting operating expenses below \$400 million. The company is optimistic about its prospects, mainly on account of strong demand for its products in end markets. It plans to enhance its Plus subscription service through enhanced benefits and user awareness and aims to work more closely with its retail partners, both in North America and abroad. GoPro is also making investments in merchandising and retail advertising to drive a bigger brand presence while continuing to innovate. It intends to expand footprint in emerging markets like India and remains focused on scaling its CRM efforts to augment customer base. GoPro recorded solid sales during the Black Friday and Cyber Monday shopping period. The company reported year-over-year sell-through growth of 30% and 20% based on available data from its larger U.S. retail partners and European retail partners, respectively, during the Black Friday week. In addition, GoPro achieved more than 120% year-over-year growth in total camera unit sales during the entire Black Friday / Cyber Monday period, with HERO8 Black comprising the lion's share (90%) of total sales.
 - GoPro intends to transform itself from the 'camera maker' to 'content maker' and has taken significant steps to diversify into higher-margin businesses including video editing and virtual reality. The company is developing various types of software solutions and hardware to curtail the complexity of managing, editing and sharing contents on different media platforms. GoPro's app Quik enable users to instantly edit their GoPro footage on their phones and create short videos for networking sites like Facebook and Instagram. The company also launched QuikStories, a new GoPro App feature that automatically copies footage from the user's GoPro to their phone, and the GoPro App then creates a ready-to-share video. Additionally, the company is marketing the combined GoPro and smartphone experience to its existing community, which is focused on out-of-home, paid search and rich media, OTT videos designed to funnel conversions. We believe that these efforts will pay off in the long term, and go a long way toward opening GoPro to a wider audience and expanding the company's user base.
 - After some painful quarters of booking charges related to inventory write downs, the company has now eliminated entry-level products, and has a clean distribution channel. Such radical steps to streamline business will work in GoPro's favor as it seeks to boost margins and swing back to profitability. GoPro should be able to attain these massive cost reductions, in light of its recent business restructuring, which did away with many high-cost operations. A large part of the reduction would be driven by the company's decision to reduce employee headcount. In addition, GoPro affirmed that these cost-cutting efforts will not interfere with its pipeline of hardware and software product launches. Overall, the company remains optimistic about its prospects in end markets mainly on account of enhanced marketing programs, expense control measures, improving channel management as well as upcoming product launches.
 - GoPro has been taking steps to solidify its position in the burgeoning virtual reality (VR) market. It also announced additional software advancements with its new GoPro VR app. Its products seem well-positioned to dominate the trending VR market. Moreover, GoPro has been focusing on offering its immersive imagery video experience to millions of people across the world through its GoPro Channel. GoPro is collaborating with technology and content partners like Adobe and Fox Sports as well as content platforms like Facebook, in order to optimize the program. The program will allow content creators to generate revenue from their content and GoPro can license this content to global advertising brands to generate revenues. GoPro has been diligently working towards spreading its popularity across the spectrum, through concentrated and successful marketing efforts.
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Last Earnings Report

GoPro Q3 Loss Narrower Than Expected, Revenues Fall

GoPro reported mixed third-quarter 2019 results, wherein revenues declined year over year but net loss narrowed. The action video camera maker's performance was primarily driven by the launch of HERO8 Black and MAX as well as healthy demand for HERO7 cameras with robust market share in Europe and Japan. Lower operating expenses and inventory management also acted as tailwinds for business operations.

Net Loss

On a GAAP basis, net loss for the September quarter was \$74.8 million or loss of 51 cents per share compared with net loss of \$27.1 million or loss of 19 cents per share in the year-ago quarter. The year-over-year wider net loss was primarily due to lower revenues.

However, non-GAAP net loss came in at \$61.3 million or loss of 42 cents per share compared with net loss of \$6.1 million or loss of 4 cents per share in the year-ago quarter. The bottom line was narrower than the Zacks Consensus Estimate of a loss of 48 cents.

Revenues

GoPro generated revenues of \$131.2 million, down 54.1% from \$285.9 million a year ago, primarily due to substantial decline in sales in the Americas, Europe, Middle East and Africa (EMEA) and Asia and Pacific (APAC) region owing to production delays of HERO8 Black. The top line, however, surpassed the consensus estimate of \$125 million.

Revenues from Americas came in at \$60.4 million (46% of total revenues), down 49.7% from \$120.1 million in the year-ago quarter. Revenues from EMEA were \$49.4 million (37.7%), down 48.3% from \$95.6 million and APAC generated \$21.4 million (16.3%), down 69.5% from \$70.2 million.

Revenues from Direct channel were \$71.7 million (54.7% of total revenues), down 46.4% from \$133.7 million. Revenues from Distribution channel came in at \$59.5 million (45.3%), down 60.9% from \$152.2 million year over year.

The company shipped 0.5 million camera units during the reported quarter, down 56.3% year over year. As of Sep 30, 2019, GoPro had \$250 million in inventory compared with \$116.5 million as of Dec 31, 2018. This short-term increase in inventory was due to the delay in shipping HERO8 Black Cameras due to production delays resulting from shift in production facilities from China to Mexico to nullify the impact of trade war and related tariffs. Notably, HERO7 Black and MAX represented more than 75% of third-quarter camera revenues.

Cash Flow & Liquidity

GoPro utilized \$112.7 million of net cash from operating activities during the first nine months of 2019 compared with \$90.8 million in the year-ago period. As of Sep 30, 2019, the company had \$43 million in cash and cash equivalents with \$146.2 million of long-term debt.

Guidance

For the fourth quarter, revenues are expected to be in the range of \$550-\$585 million with non-GAAP earnings of 74-84 cents per share and GAAP earnings of 65-75 cents. Gross margin is expected in the vicinity of 40%, while operating expenses are likely to be about \$105 million.

For the full year, revenues are expected to be in the range of \$1.22-\$1.25 billion, up 6% to 9%. Non-GAAP earnings is anticipated to be 30-40 cents per share. GAAP EPS is likely to be loss of 10 cents to breakeven with EBITDA of about \$90 million.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	4.68%
EPS Surprise	12.50%
Quarterly EPS	-0.42
Annual EPS (TTM)	-0.16

Recent News

On Dec 20, 2019, GoPro announced that it has started shipping the Light Mod — a standalone light that is waterproof, rechargeable and compatible with all GoPro mounts. Users can choose from four levels of brightness or use the strobe mode for signaling or visibility. Notably, an included light diffuser offers an additional level of creative control, reducing heavy shadows and creating more flattering light. Currently available in the United States for \$49.99, the product is planned to be rolled out globally in the coming weeks. Light Mod is the first of three HERO8 Black modular accessories designed to transform the camera into a production and vlogging powerhouse.

On Dec 3, 2019, GoPro announced that it has recorded solid sales during the Black Friday and Cyber Monday shopping period. The company reported year-over-year sell-through growth of 30% and 20%, based on available data from its larger U.S. retail partners and European retail partners, respectively, during the Black Friday week. In addition, it achieved more than 120% year-over-year growth in total camera unit sales during the entire Black Friday / Cyber Monday period, with HERO8 Black comprising the lion's share (90%) of total sales.

On Oct 2, 2019, GoPro announced the launch of HERO8 Black and MAX for the holiday-shopping season. HERO8 Black is equipped with next-gen HyperSmooth 2.0 video stabilization, which has an improved baseline performance and works in all resolutions and frame rates. It comes in three variants, Media Mod, Display Mod and Light Mod, featuring four digital lenses. It also has Boost mode and TimeWarp 2.0 to enable automatic rate adjustment and tap-control speed ramping. MAX is a dual-lens GoPro camera, featuring 16' / 5m waterproof lens with an in-built front-facing display and shotgun-mic audio capabilities for an extraordinary experience.

Valuation

GoPro shares are down 2.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 35.6% and 25.8% over the past year, respectively.

The S&P 500 Index is up 27.4% in the past year.

The stock is currently trading at 0.55X forward 12-month sales, which compares to 0.95X for the Zacks sub-industry, 2.36X for the Zacks sector and 3.46X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 5.2X and as low as 0.4X, with a 5-year median of 0.9X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$3.75 price target reflects 6.82X forward 12-month sales.

The table below shows summary valuation data for GPRO

Valuation Multiples - GPRO					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.55	0.95	2.36	3.46
	5-Year High	5.22	0.95	3.19	3.46
	5-Year Low	0.41	0.05	1.81	2.54
	5-Year Median	0.89	0.58	2.55	3
P/B TTM	Current	4.89	1.66	3.55	4.41
	5-Year High	13.33	1.88	5.04	4.42
	5-Year Low	1.73	0.96	3.13	2.85
	5-Year Median	3.75	1.43	4.29	3.6
EV/Sales TTM	Current	0.74	0.65	3.31	3.22
	5-Year High	5.83	0.66	4.02	3.3
	5-Year Low	0.43	0.21	2.7	2.14
	5-Year Median	0.86	0.43	3.44	2.79

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 253)



Top Peers

Sony Corporation (SNE)	Outperform
Dolby Laboratories (DLB)	Neutral
Turtle Beach Corporation (HEAR)	Neutral
IMAX Corporation (IMAX)	Neutral
LiveXLive Media, Inc. (LIVX)	Neutral
Panasonic Corp. (PCRFY)	Neutral
Sonos, Inc. (SONO)	Neutral
Nikon Corp. (NINYO)	Underperform

Industry Comparison Industry: Audio Video Production				Industry Peers		
	GPPO Underperform	X Industry	S&P 500	LIVX Neutral	SNE Outperform	SONO Neutral
VGM Score	F	-	-	F	A	F
Market Cap	685.32 M	90.70 M	23.76 B	97.51 M	86.38 B	1.71 B
# of Analysts	4	3	13	2	2	4
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.39%	0.00%
Value Score	F	-	-	F	A	D
Cash/Price	0.12	0.22	0.04	0.17	0.30	0.21
EV/EBITDA	-15.11	5.04	13.97	-3.33	5.46	36.97
PEG Ratio	0.96	1.97	2.02	NA	2.21	NA
Price/Book (P/B)	4.89	2.40	3.38	22.76	2.01	5.98
Price/Cash Flow (P/CF)	NA	11.67	13.70	NA	7.39	53.08
P/E (F1)	9.60	16.17	18.83	NA	17.07	NA
Price/Sales (P/S)	0.66	0.75	2.68	2.62	1.11	1.36
Earnings Yield	10.23%	3.84%	5.30%	-43.45%	5.86%	-0.76%
Debt/Equity	1.59	0.09	0.72	1.18	0.17	0.09
Cash Flow (\$/share)	-0.21	0.03	6.94	-0.56	9.34	0.30
Growth Score	F	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	NA%	7.05%	10.56%	NA	105.94%	NA
Proj. EPS Growth (F1/F0)	26.76%	-7.35%	7.41%	-1.39%	-37.09%	-140.00%
Curr. Cash Flow Growth	-72.41%	-0.04%	14.83%	118.33%	55.73%	33.24%
Hist. Cash Flow Growth (3-5 yrs)	NA%	-4.84%	9.00%	NA	35.90%	NA
Current Ratio	1.33	1.23	1.23	0.48	0.86	1.69
Debt/Capital	61.35%	15.62%	42.92%	54.12%	14.85%	8.12%
Net Margin	-7.55%	-0.08%	11.08%	-101.81%	9.93%	-0.38%
Return on Equity	-32.29%	-1.68%	17.10%	-501.10%	18.90%	-1.68%
Sales/Assets	1.52	0.99	0.55	0.64	0.40	1.94
Proj. Sales Growth (F1/F0)	4.52%	0.00%	4.20%	16.01%	-5.15%	9.58%
Momentum Score	F	-	-	F	B	F
Daily Price Chg	1.38%	0.31%	0.33%	8.74%	1.56%	1.15%
1 Week Price Chg	-2.39%	0.00%	0.13%	-14.21%	-0.18%	1.21%
4 Week Price Chg	8.91%	0.66%	3.31%	-17.65%	5.92%	20.06%
12 Week Price Chg	30.18%	5.67%	9.70%	5.66%	20.46%	19.07%
52 Week Price Chg	3.04%	4.58%	30.28%	-69.68%	46.87%	56.59%
20 Day Average Volume	3,159,018	19,745	1,603,615	206,100	780,565	1,320,910
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-4.65%	-3.37%	-0.57%	-2.10%	8.44%	-154.55%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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