

GoPro, Inc. (GPRO)

\$3.96 (As of 02/06/20)

Price Target (6-12 Months): **\$4.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: A

Summary

GoPro reported tepid fourth-quarter 2019 results, wherein both the top and bottom lines missed the Zacks Consensus Estimate. Owing to its exposure in an intensely competitive camera and camcorder market, the company remains susceptible to high product concentration risk. Ample R&D expenses and pricing pressure are likely to dent its profitability. Low cost alternatives from major players pose a threat to GoPro's market share, thereby leading to commoditization of action cameras. However, the action camera video maker is optimistic about its prospects, mainly on account of strong demand for its products in high-end markets. It aims to drive subscriber growth revenues through Plus subscription service and app monetization strategy. It also intends to maintain healthy momentum in its business with effective cost-control measures.

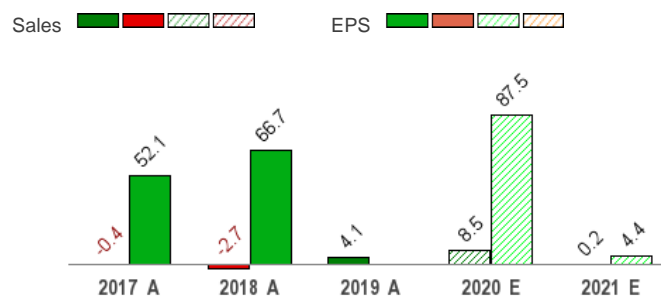
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$7.65 - \$3.25
20 Day Average Volume (sh)	5,412,951
Market Cap	\$616.8 M
YTD Price Change	-8.8%
Beta	0.77
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Audio Video Production
Zacks Industry Rank	Top 14% (36 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.4%
Last Sales Surprise	-7.4%
EPS F1 Est- 4 week change	119.5%
Expected Report Date	05/14/2020
Earnings ESP	0.0%
P/E TTM	16.5
P/E F1	8.8
PEG F1	0.9
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	242 E	305 E	314 E	415 E	1,299 E
2020	242 E	305 E	314 E	414 E	1,296 E
2019	243 A	292 A	131 A	528 A	1,195 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.11 E	\$0.05 E	\$0.11 E	\$0.38 E	\$0.47 E
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	\$0.70 A	\$0.24 A

*Quarterly figures may not add up to annual.

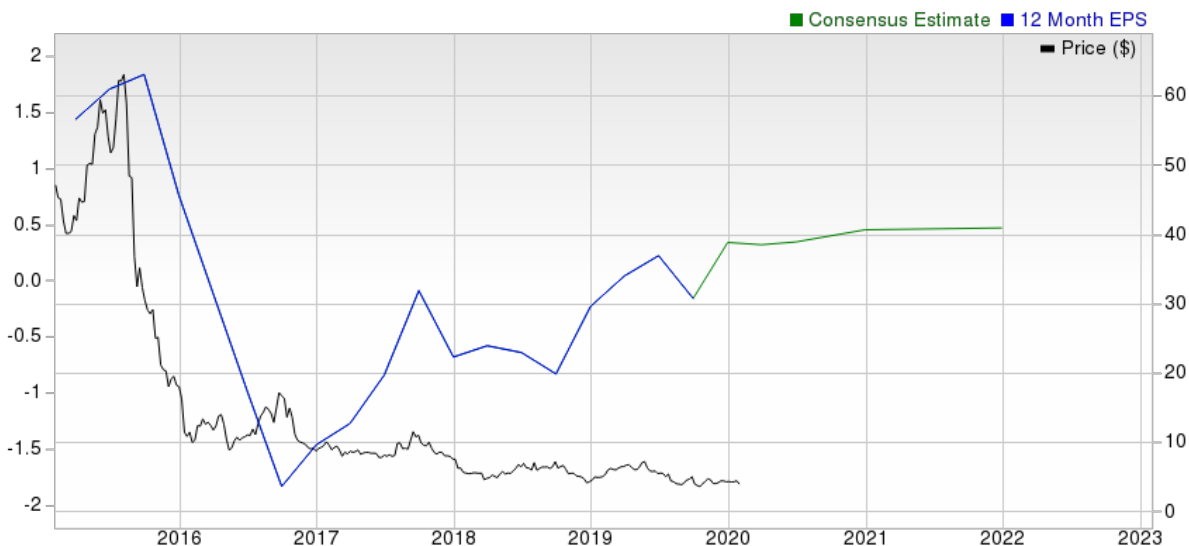
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

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 (43.6% of total revenues in fourth-quarter 2019) comprises its website and various types of specialty retailers. The company uses the distribution channel (56.4%) 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 Buy:

- ▲ GoPro aims to translate the healthy momentum in its business along with controlled cost into growth and profitability while limiting operating expenses. 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. In the last reported quarter, GoPro recorded solid sales performance of HERO8 Black and MAX 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 Black Friday/Cyber Monday period, with HERO8 Black comprising the lion's share (90%) of aggregate sales. It achieved 90% of revenues from cameras with prices above \$300 in the reported quarter and for the full year compared with the respective tallies of 74% and 62% a year ago. The company is confident that a surge in demand will position it for revenue and earnings growth in 2020.
- ▲ 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. In the last reported quarter, its usage witnessed drastic growth of 400% year over year. 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.
- ▲ Subscribers are one of the most integral constituents behind GoPro's massive success globally. Its much-acclaimed high-margin plus subscription service and app monetization strategy drove its paid subscriber base to 334,000 at the end of January 2020. Moreover, social followers across all channels increased 4.2 million in 2019 with accretive organic viewership of GoPro content. The company shipped 1.9 million camera units during the fourth quarter of 2019, up 31.4% year over year. Markedly, the company anticipates to capture 600,000 to 700,000 paid subscribers in 2020, which will apparently generate high margin annual recurring revenues of \$35-\$40 million in 2021.

GoPro intend to translate the healthy momentum in its business along with controlled cost into growth and profitability while limiting operating expenses.

Reasons To Sell:

- ▼ GoPro faced multiple operational stumbles including product recalls, messed up launches, production delays and missed deadlines in the past. As of Dec 31, 2019, GoPro had \$144.2 million in inventory compared with \$116.5 million on Dec 31, 2018. This increase in inventory was due to production delays of HERO8 Black cameras as a result of shift in production facilities from China to Mexico.
- ▼ 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 often strain 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.

Last Earnings Report

GoPro Q4 Earnings Miss Estimates, Revenues Up Y/Y

GoPro reported tepid fourth-quarter 2019 results, wherein both the top and bottom lines missed the Zacks Consensus Estimate.

Net Income

On a GAAP basis, net income for the December quarter was \$95.8 million or 65 cents per share compared with \$31.7 million or 22 cents per share in the year-ago quarter. The three-fold increase in GAAP earnings was primarily attributable to higher revenues and income tax benefit in the reported quarter. For full-year 2019, net loss was \$14.7 million or loss of 10 cents per share compared with net loss of \$109 million or loss of 78 cents per share in 2018.

Quarterly non-GAAP net income came in at \$102.5 million or 70 cents per share compared with \$42.4 million or 30 cents per share in the year-ago quarter. The bottom line missed the Zacks Consensus Estimate by 9 cents.

Non-GAAP net earnings in 2019 were \$35.3 million or 24 cents per share against net loss of \$31.9 million or loss of 23 cents per share a year ago. The drastic improvement was mainly driven by top-line growth.

Revenues

GoPro generated revenues of \$528.3 million, up 40% from \$377.4 million a year ago. The increase was primarily driven by robust portfolio line-up, app monetization strategy and high-volume sales of HERO8 Black and MAX with Plus subscription service strategy, which further drove its subscriber base. The top line, however, lagged the consensus estimate of \$571 million. Full year-revenues jumped 4% to \$1,194.7 million from \$1,148.3 million.

Revenues from Americas came in at \$212.2 million (40.2% of total revenues), up 34.6% from \$157.7 million in the year-ago quarter. Revenues from EMEA were \$156 million (29.5%), up 34% from \$116.4 million and APAC generated \$160.1 million (30.3%), up 55% from \$103.3 million.

Revenues from Direct channel were \$230.3 million (43.6% of total revenues), up 33.6% from \$172.4 million. Revenues from Distribution channel came in at \$298 million (56.4%), up 45.4% from \$205 million year over year.

GoPro shipped 1.9 million camera units during the reported quarter, up 31.4% year over year. The company had \$144.2 million in inventory compared with \$116.5 million in the year-ago quarter. Non-GAAP gross margin came in at 38.6%, up 20 basis points (bps) from 38.4%. However, it was negatively impacted by tariffs related to production delays of HERO8 Black cameras as a result of shift in production facilities from China to Mexico. Impressively, cameras with prices above \$300 represented 90% of revenues in the quarter and for the full year compared with the respective tallies of 74% and 62% a year ago.

Cash Flow & Liquidity

In 2019, GoPro utilized \$24.4 million of net cash from operating activities compared with \$42.4 million of cash utilization in 2018. As of Dec 31, 2019, the company had \$150.3 million in cash and cash equivalents with \$148.8 million of long-term debt compared with respective tallies of \$152.1 million and \$139 million a year ago.

Q1 and 2020 Guidance

GoPro has provided outlook for first-quarter and full-year 2020. For the quarter, management expects revenues of \$140-\$260 million with net loss of \$40-\$60 million.

For the full year, non-GAAP earnings are expected to be in the range of 40-50 cents per share and GAAP earnings of 1 cent to 11 cents per share. Cash flow is anticipated in the band of \$80-\$100 million with gross margin of 38-39%. EBITDA is likely to be in the range of \$95-\$110 million. Markedly, the company expects to improve its margins with effective cost-control measures.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-7.41%
EPS Surprise	-11.39%
Quarterly EPS	0.70
Annual EPS (TTM)	0.24

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.

Valuation

GoPro shares are down 25.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 46.8% and 14.8% over the past year, respectively.

The S&P 500 Index is up 22.1% in the past year.

The stock is currently trading at 0.48X forward 12-month sales, which compares to 0.9X for the Zacks sub-industry, 2.31X for the Zacks sector and 3.54X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 4.1X and as low as 0.4X, with a 5-year median of 0.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$4.25 price target reflects 8.85X 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	0.48	0.9	2.31	3.54
	5-Year High	4.06	0.94	3.19	3.54
	5-Year Low	0.41	0.09	1.81	2.54
	5-Year Median	0.88	0.61	2.54	3
P/B TTM	Current	4.69	1.65	3.53	4.54
	5-Year High	11.35	1.91	8.31	4.54
	5-Year Low	1.73	0.98	3.13	2.85
	5-Year Median	3.75	1.47	4.32	3.62
EV/Sales TTM	Current	0.72	0.65	3.3	3.35
	5-Year High	4.91	0.67	4.01	3.35
	5-Year Low	0.43	0.22	2.43	2.12
	5-Year Median	0.85	0.45	3.43	2.79

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 255)



Top Peers

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

Industry Comparison Industry: Audio Video Production				Industry Peers		
	GPRO Neutral	X Industry	S&P 500	LIVX Neutral	SNE Outperform	SONO Neutral
VGM Score	C	-	-	D	B	C
Market Cap	616.79 M	94.47 M	24.40 B	108.54 M	89.49 B	1.73 B
# of Analysts	4	2	13	2	2	4
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.38%	0.00%
Value Score	C	-	-	F	A	D
Cash/Price	0.13	0.23	0.04	0.20	0.29	0.22
EV/EBITDA	-13.84	4.65	14.17	-3.76	5.58	37.45
PEG Ratio	0.88	1.47	2.05	NA	NA	NA
Price/Book (P/B)	4.40	1.99	3.31	25.34	1.99	5.96
Price/Cash Flow (P/CF)	NA	10.31	13.63	NA	7.66	52.95
P/E (F1)	8.80	15.66	19.08	NA	16.30	NA
Price/Sales (P/S)	0.52	0.67	2.67	2.92	1.13	1.30
Earnings Yield	11.36%	3.75%	5.24%	-39.04%	6.14%	-0.76%
Debt/Equity	1.59	0.11	0.71	1.18	0.13	0.09
Cash Flow (\$/share)	-0.21	0.02	6.89	-0.56	9.34	0.30
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	NA%	19.00%	10.80%	NA	105.94%	NA
Proj. EPS Growth (F1/F0)	88.54%	-14.00%	7.23%	-1.39%	-31.73%	-140.00%
Curr. Cash Flow Growth	-72.41%	2.43%	9.51%	118.33%	55.73%	33.24%
Hist. Cash Flow Growth (3-5 yrs)	NA%	-6.15%	8.55%	NA	35.90%	NA
Current Ratio	1.33	1.24	1.20	0.48	0.88	1.69
Debt/Capital	61.35%	16.40%	42.90%	54.12%	11.59%	8.12%
Net Margin	-1.23%	-1.23%	11.76%	-101.81%	7.62%	0.33%
Return on Equity	2.28%	-0.25%	16.98%	-501.10%	14.29%	1.52%
Sales/Assets	1.74	1.05	0.54	0.64	0.40	2.03
Proj. Sales Growth (F1/F0)	8.47%	0.00%	4.15%	16.01%	0.75%	9.89%
Momentum Score	A	-	-	C	A	D
Daily Price Chg	-9.17%	0.00%	-0.11%	19.11%	1.48%	11.77%
1 Week Price Chg	-11.26%	-2.39%	-2.60%	-7.89%	-2.37%	-2.42%
4 Week Price Chg	-10.41%	0.00%	1.51%	12.65%	0.73%	2.60%
12 Week Price Chg	-15.39%	-2.87%	5.63%	51.42%	15.68%	6.13%
52 Week Price Chg	-22.96%	-20.79%	17.01%	-64.92%	66.16%	44.32%
20 Day Average Volume	5,412,951	16,480	1,961,054	186,551	1,036,198	1,505,403
(F1) EPS Est 1 week change	119.51%	0.00%	0.00%	0.00%	4.65%	0.00%
(F1) EPS Est 4 week change	119.51%	0.00%	-0.00%	0.00%	11.99%	0.00%
(F1) EPS Est 12 week change	119.51%	-2.10%	-0.16%	-2.10%	16.75%	-152.17%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	0.00%

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	C
Growth Score	C
Momentum Score	A
VGM Score	C

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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