

GoPro, Inc. (GPRO)

\$4.90 (As of 07/10/20)

Price Target (6-12 Months): **\$5.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/20/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

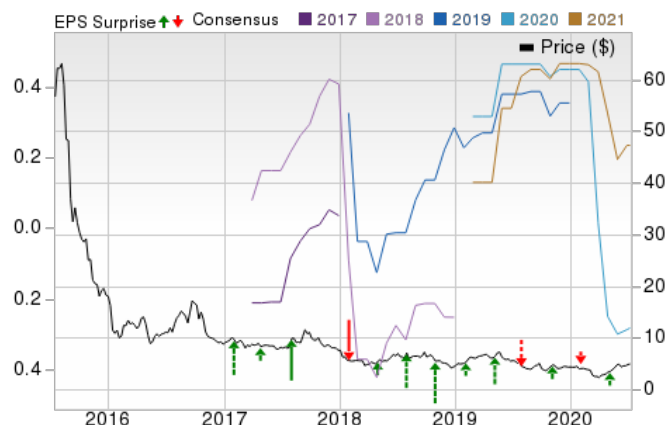
Growth: F

Momentum: B

Summary

GoPro intends to expand footprint in emerging markets and is focused on scaling CRM efforts. The action video camera maker aims to translate the business momentum and controlled cost into growth and profitability. It benefits from a robust portfolio and direct-to-consumer operating framework with a Plus subscription service. GoPro sold 700,000 cameras in the first quarter of 2020. However, GoPro spends a considerable amount on R&D, which dents margins. It generates the majority of revenues from capture devices, in turn facing product concentration risk. Constrained demand due to COVID-19-induced market downturn and price cuts might impact the top line in the coming quarters. Highly-competitive camera and camcorder market is also a major headwind. GoPro has withdrawn its 2020 guidance due to the COVID-19 pandemic.

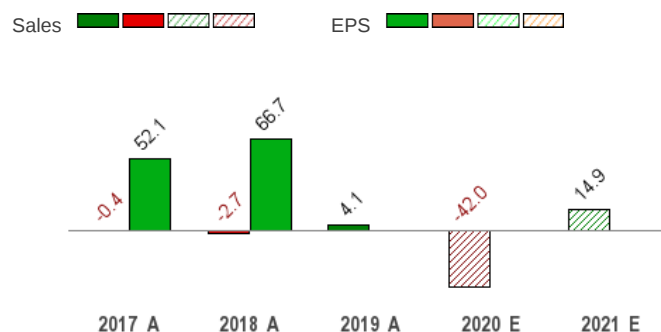
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$5.79 - \$2.00
20 Day Average Volume (sh)	2,096,983
Market Cap	\$772.1 M
YTD Price Change	12.9%
Beta	1.46
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Audio Video Production
Zacks Industry Rank	Bottom 23% (195 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2020
Earnings ESP	43.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	133 E	102 E	173 E	359 E	796 E
2020	119 A	109 E	168 E	278 E	693 E
2019	243 A	292 A	131 A	528 A	1,195 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.14 E	-\$0.15 E	\$0.03 E	\$0.45 E	\$0.24 E
2020	-\$0.34 A	-\$0.18 E	-\$0.03 E	\$0.26 E	-\$0.28 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/10/2020. The reports text is as of 07/13/2020.

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.

The company offers cloud connected HERO7 Silver, HERO7 Black, and HERO8 Black waterproof cameras, and MAX, a 360-degree waterproof camera, GoPro Plus, a cloud-based storage solution that enables subscribers to access, edit, and share content. It also offers mounts and accessories comprising equipment-based mounts consisting of helmet, handlebar, roll bar, and tripod mounts that enable consumers to wear the mount on their bodies, such as wrist housings, chest harnesses, and head straps. 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 (54.4% of total revenues in first-quarter 2020) comprises its website and various types of specialty retailers. The company uses the distribution channel (45.6%) 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 has sold 700,000 cameras in first-quarter 2020. It 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's Plus subscription service ended the reported quarter with 355,000 paid subscribers, up 69% from the prior-year quarter's figure. Further, the organic viewership of GoPro content reached a record quarterly high of 243 million, up more than 40% from the year-ago quarter's level. The company 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 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. Markedly, cameras with prices above \$300 contributed nearly 90% to revenues in the reported quarter. 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. Currently, GoPro is undertaking direct-to-consumer growth initiatives with an effective operating business model. Consequently, this restructuring will result in an estimated charge of \$31-\$49 million. Overall, the company is 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.

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 has withdrawn its 2020 guidance due to uncertainties pertaining to the COVID-19 pandemic. The company faced multiple operational stumbles including product recalls, messed up launches, production delays and missed deadlines in the past. As of Mar 31, 2020, GoPro had \$172 million in inventory compared with \$119 million on Mar 31, 2019. In the last reported quarter, the action video camera maker's global distribution network has been severely impacted by the COVID-19 pandemic. As a result, there was a year-over-year increase in the inventory.
- ▼ 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 generates majority of its revenues from capture devices and, hence, faces a high product concentration risk. In the last reported quarter, the company generated revenues of \$119.4 million, down 50.8% from \$242.7 million in the year-ago quarter. In spite of in-line preliminary results, the year-over-year decline in revenues was mainly caused by adversities induced by the COVID-19 pandemic. It shipped 341,000 camera units during the reported quarter, down 59.5% year over year. 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 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.
- ▼ As of Mar 31, 2020, the company had \$125 million in cash and cash equivalents with \$212 million of long-term debt. GoPro's debt-laden balance sheet is a major concern. Its debt-to-capital ratio has increased sequentially from 0.49 to 0.59. Consequently, this highly leveraged balance sheet is more likely to inflate the company's financial obligations and hurt profitability. Also, its debt-to-equity ratio has increased sequentially from 0.95 to 1.41. This indicates that GoPro is likely to be more dependent on debt-financing to generate earnings in the near future, which is often associated with high risk. Although the company has a favorable cash ratio, its times interest earned has declined significantly to -1.9, which indicates that GoPro is unlikely to clear its debt in the near term.

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

Last Earnings Report

GoPro Q1 Earnings Meet Estimates, Withdraws 2020 View

GoPro reported unimpressive first-quarter 2020 results, with the bottom line and top line deteriorating on a year-over-year basis. However, direct-to-consumer operating model and accretive subscriber base were tailwinds amid the COVID-19 crisis.

Net Loss

On a GAAP basis, net loss in the March quarter came in at a loss of \$63.5 million or 43 cents per share that is wider than a loss of \$24.4 million or 17 cents per share in the year-ago quarter. The year-over-year deterioration was primarily caused by lower revenues and income tax expenses in the reported quarter.

Quarterly non-GAAP net loss came in at a loss of \$49.6 million or 34 cents per share compared with a loss of \$10.2 million or 7 cents per share in the year-ago quarter. The bottom line met the Zacks Consensus Estimate.

Revenues

GoPro generated revenues of \$119.4 million, down 50.8% from \$242.7 million in the year-ago quarter. In spite of in line preliminary results, the year-over-year decline in revenues was mainly caused by adversities induced by the COVID-19 pandemic. Nevertheless, the company witnessed an upward sell-through trend of GoPro Cameras amid this crucial hour. Also, the top line met the consensus estimate.

Markedly, GoPro's Plus subscription service ended the reported quarter with 355,000 paid subscribers, up 69% from the prior-year quarter's figure. Further, the organic viewership of GoPro content reached a record quarterly high of 243 million, up more than 40% from the year-ago quarter's level.

Revenues from Americas came in at \$57.3 million (47.9% of total revenues), down 47.5% from \$109.1 million in the year-ago quarter. Revenues from EMEA were \$29.7 million (24.9%), down 58.1% from \$70.9 million and APAC generated \$32.4 million (27.2%), down 48.3% from \$62.7 million.

Revenues from Direct channel were \$64.9 million (54.3% of total revenues), down 41.5% from \$110.9 million. Revenues from Distribution channel came in at \$54.5 million (45.7%), down 58.6% from \$131.8 million year over year.

GoPro shipped 341,000 camera units during the reported quarter, down 59.5% year over year. The company had \$172 million in inventory compared with \$119 million in the year-ago quarter. Non-GAAP gross margin remained flat at 34.2% from the prior-year quarter's level, driven by the implementation of direct-to-consumer operating model. Impressively, cameras with prices above \$300 contributed nearly 90% to revenues in the reported quarter.

Cash Flow & Liquidity

During the first three months of 2020, GoPro utilized \$68.3 million of net cash for operating activities compared with \$65 million of cash utilization in the year-ago quarter. As of Mar 31, 2020, the company had \$117.4 million in cash and cash equivalents with \$151.4 million of long-term debt.

2020 Guidance Withdrawn

Thanks to the uncertainties pertaining to the COVID-19 crisis, GoPro has withdrawn its 2020 financial guidance. Currently, GoPro is undertaking direct-to-consumer growth initiatives with an effective operating business model. Consequently, this restructuring will result in an estimated charge of \$31-\$49 million.

Although the action video camera maker's global distribution network has been severely impacted by the COVID-19 pandemic, the company stated that any kind of operational changes will not impact its 2020 product roadmap, which includes new hardware, software and subscription products. That said, the company will continue to sell its products to select leading retailers in key regions where consumers still prefer offline purchase. Notably, GoPro believes that a more direct-to-consumer-centric approach is better aligned with the present business climate as well as accretive to the average selling price of products and gross margin. This, in turn, will enable the company to position itself well when demand begins to normalize amid this hour of crisis.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	0.34%
EPS Surprise	0.00%
Quarterly EPS	-0.34
Annual EPS (TTM)	-0.03

Recent News

On May 29, 2020, GoPro announced that it has witnessed record e-commerce camera sales over the Memorial Day weekend. The momentum was primarily driven by its flagship product, HERO8 Black. The company also debuted the \$69.99 Zeus Mini mountable light, which is compatible with its entire line of cameras. The development is an outcome of GoPro's strategic shift to a more direct-to-consumer business to drive higher gross margin and lower the threshold to achieve profitability. Global demand on GoPro's website increased significantly since the third week of April, surpassing the prior year's weekly demand by at least 500%. Management anticipates a sell-through of 600,000-650,000 units in the second quarter of 2020.

On Apr 15, GoPro announced restructuring measures that will help it become a more efficient direct-to-consumer-centric business to tackle the coronavirus crisis. Management has decided to cut more than 200 jobs, shift sales operations to market digital adventure cameras directly to consumers and withdraw 2020 financial guidance. GoPro's global distribution network has been severely impacted by the COVID-19 pandemic. So the operational changes, staff reductions of more than 20% and cuts to office space are estimated to save \$100 million in 2020 as well as limit expenses to \$250 million in the next year. GoPro also stated that chief executive officer Nicholas Woodman will waive the remainder of his salary through the end of 2020.

Valuation

GoPro shares are down 11% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 25% over the past year, while stocks in the Zacks Consumer Discretionary sector have moved down 6.4% in the same time frame.

The S&P 500 Index is up 6.5% in the past year.

The stock is currently trading at 1.03X forward 12-month sales, which compares to 0.97X for the Zacks sub-industry, 2.28X for the Zacks sector and 3.55X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 4.06X and as low as 0.26X, with a 5-year median of 0.85X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$5.25 price target reflects 5.1X 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	1.03	0.97	2.28	3.55
	5-Year High	4.06	0.97	3.2	3.55
	5-Year Low	0.26	0.13	1.67	2.53
	5-Year Median	0.85	0.66	2.49	3.02
P/B TTM	Current	4.35	1.71	3.1	4.37
	5-Year High	10.99	1.91	5.03	4.56
	5-Year Low	1.26	0.98	2.2	2.83
	5-Year Median	3.44	1.47	4.21	3.7
EV/Sales TTM	Current	0.8	0.65	2.97	3.11
	5-Year High	4.76	0.68	3.94	3.45
	5-Year Low	0.29	0.24	2.29	2.14
	5-Year Median	0.79	0.46	3.38	2.84

As of 07/10/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Turtle Beach Corporation (HEAR)	Outperform	1
IMAX Corporation (IMAX)	Neutral	3
LiveXLive Media, Inc. (LIVX)	Neutral	2
Panasonic Corp. (PCRFY)	Neutral	4
Sony Corporation (SNE)	Neutral	3
Sonos, Inc. (SONO)	Neutral	3
Dolby Laboratories (DLB)	Underperform	4
Nikon Corp. (NINYO)	Underperform	5

Industry Comparison Industry: Audio Video Production				Industry Peers		
	GPRO	X Industry	S&P 500	DLB	HEAR	SONO
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	4	1	3
VGM Score	F	-	-	C	B	F
Market Cap	772.11 M	67.07 M	21.61 B	6.63 B	256.92 M	1.65 B
# of Analysts	4	3	14	5	2	3
Dividend Yield	0.00%	0.00%	1.92%	1.34%	0.00%	0.00%
Value Score	F	-	-	D	B	F
Cash/Price	0.17	0.17	0.07	0.14	0.04	0.17
EV/EBITDA	32.50	3.93	12.75	15.53	13.77	36.57
PEG Ratio	NA	5.17	2.87	2.15	NA	NA
Price/Book (P/B)	4.10	1.79	3.01	2.80	4.28	5.49
Price/Cash Flow (P/CF)	25.24	10.06	11.53	19.35	15.03	50.75
P/E (F1)	NA	24.58	21.07	27.89	31.48	NA
Price/Sales (P/S)	0.72	0.71	2.23	5.32	1.14	1.27
Earnings Yield	-5.71%	3.68%	4.48%	3.59%	3.18%	-2.45%
Debt/Equity	1.19	0.05	0.76	0.00	0.00	0.07
Cash Flow (\$/share)	0.19	0.02	6.94	3.40	1.17	0.30
Growth Score	F	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	NA%	10.57%	10.90%	7.02%	NA	NA
Proj. EPS Growth (F1/F0)	-217.71%	-30.79%	-9.99%	-3.28%	-46.15%	-640.00%
Curr. Cash Flow Growth	-197.78%	3.62%	5.51%	-0.04%	-65.83%	33.24%
Hist. Cash Flow Growth (3-5 yrs)	-27.97%	-2.18%	8.55%	3.73%	67.54%	NA
Current Ratio	1.74	1.34	1.30	4.75	2.01	2.18
Debt/Capital	54.40%	16.66%	44.46%	0.00%	0.00%	6.70%
Net Margin	-5.02%	-3.91%	10.62%	17.74%	5.04%	-1.95%
Return on Equity	-19.12%	-7.33%	15.75%	9.45%	11.78%	-8.14%
Sales/Assets	1.53	1.10	0.55	0.43	1.96	1.77
Proj. Sales Growth (F1/F0)	-42.03%	0.00%	-2.52%	-9.34%	11.56%	-0.53%
Momentum Score	B	-	-	C	C	D
Daily Price Chg	1.03%	0.00%	1.51%	0.52%	3.89%	-0.49%
1 Week Price Chg	5.27%	0.00%	3.66%	0.32%	3.47%	0.87%
4 Week Price Chg	14.75%	3.28%	1.85%	7.16%	57.34%	24.22%
12 Week Price Chg	89.92%	16.93%	12.57%	15.07%	143.17%	62.77%
52 Week Price Chg	-12.03%	-15.14%	-7.10%	2.91%	69.19%	38.58%
20 Day Average Volume	2,096,983	74,240	2,339,510	402,638	1,127,854	8,283,534
(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%	-0.60%	5,500.00%	0.00%
(F1) EPS Est 12 week change	-39.02%	-31.73%	-7.77%	-33.67%	241.77%	-136.17%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.35%	16.67%	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	B
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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