

GoPro, Inc.
GPRO

Analyst: Nicolas Morand
Sector: Information
Technology

BUY on GPRO

Price Target: \$37.81

Key Statistics as of 12/11/15

Market Price: \$19.15
Industry: Photographic Equipment & Supplies.
Market Cap: \$2.63 B
52-Week Range: \$16.77 - \$69.75
Beta: 0.66

Thesis Points:

- Strong revenue growth year over year
- Recent market news drop the stock price to its lowest level since its IPO making it a good entry point
- New product launch for 2016 to respond in the lack of innovation criticism

Company Description:

GoPro Inc, is a company that manufactures and sells cameras with related accessories to enable customers to capture, share and manage both their photographic and videography experienced. The company offers cameras, accessories such as helmets, roll bar, handlebar and other items that can fix cameras on bodies so as to allow consumers to capture the moment while being involved in an activity. In addition with all the hardware product it offers, GoPro also provide its consumers a software solution, GoPro Studio, which able consumers to create professional videos with the content of their GoPro cameras. With its App, GoPro allow its customer to manage, store and share their videos' content from the camera to the mobile device.



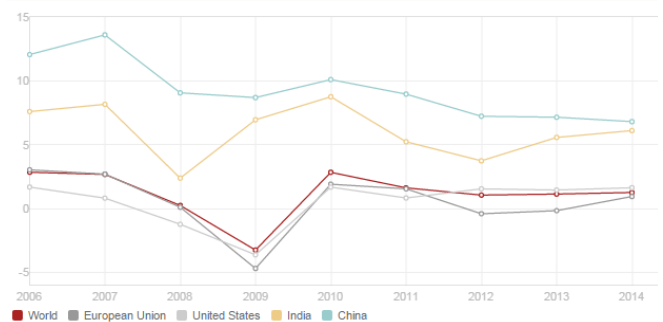
Thesis

GoPro is among the top leader in the digital camera and manages to provide a unique experience with its cameras. Financially, this is a great company which has no debt, provide a strong growth in revenue every year while decreasing some operation costs, and invest in research and development to provide consumers the latest technology on the market. Recent market news such as the new patent from Apple to control cameras wirelessly, let the firm's stock price down because investors were afraid that Apple take some market share in the digital camera business which would hurt GoPro's business. This year, there was a bad criticism concerning its latest product "Hero4 Black", which led investors to complain about the lack of innovation in their product. These 2 events are most of the decrease of GoPro's stock price to a level, which I find too low for this company. GoPro take some initiative from these criticism and will launch in 2016 two brand new product category, such as a drone, and a six camera rig to enable spherical photos and videos for virtual reality. This should be appreciated by consumers and the market could respond if sales follow expectations, driven the stock price higher. Acquiring this company might be a good investment opportunity for a medium to long-term investment.

Industry Outlook

The Photographic and Equipment industry have drastically changed with new technologies in recent years. Over the past decade, there was a massive increase of competitors with the rise of online retailers and consumer electronic stores. This has affect people's consumptions and many cameras stores went out of business. For the coming years, the trend of new technologies in the camera business is expected to continue as it gives a professional quality work without the need of a specialist. The global digital photography has been increasing for years thanks to the rise of social networking such as YouTube, Facebook or

Instagram. The market has been revolutionized, more and more people share their videos or photography through social networks as the internet of things make it easier to share content online. With the elaboration of professional software which allow consumers to work on their photos, every single person is able to provide a professional quality work. This should drive the global digital photography market higher in the coming years.



This market is specially expected to grow fast in the APAC area such as China or India because of the increase in GDP growth per capita. As you can see on the graph above from World Bank, Both China (in blue) and India (in yellow) are expected to see a faster increase in GDP per capita than the US, the European Union or the World in average (bright grey, dark grey and red respectively).

Porter's Five Forces

Bargaining power of suppliers: **LOW**

GoPro takes advantages of its diverse distribution channel and should not be threaten by suppliers. Besides, there is a large number of suppliers from which GoPro could receive its materials.

Bargaining power of customers: **HIGH**

The bargaining power of customer is between medium and high. GoPro must maintain the same quality standard to both justify the premium on its products and to be able to keep their customers satisfy. However, there is few substitutes to GoPro's actions' camera which give them a competitive advantage in the digital photography market.

Threat of substitutes: **LOW**

There is indeed some cameras to replace GoPro's camera on the market. Nevertheless, they have

significantly lower performance and a much lower quality. There are very few cameras on the market that can offer the same potential and quality as a GoPro camera.

Existing rivalry: **LOW**

There is many firm that provide digital cameras on the market but none which can match the potential of a GoPro. GoPro takes advantages of both its product diversification and its strong brand image to keep its customers loyal to the company. GoPro provides a special experience to its customers that other competitors cannot provide, which gives few opportunity to competitors to gain GoPro's market shares.

Barriers to Entry: **MEDIUM**

It might not be easy for a new business to enter this market for several reasons. The first one is that a strong distribution is required to be able to compete with existing rivals. Then, the brand name is very strong as it testify of the quality of the products. Finally a strong investment in technologies and R&D is an absolute requirement to be able to provide a high quality camera. However, some companies do have the technology and the strong brand name to launch their own digital cameras, which could harm GoPro's business.

Product Portfolio

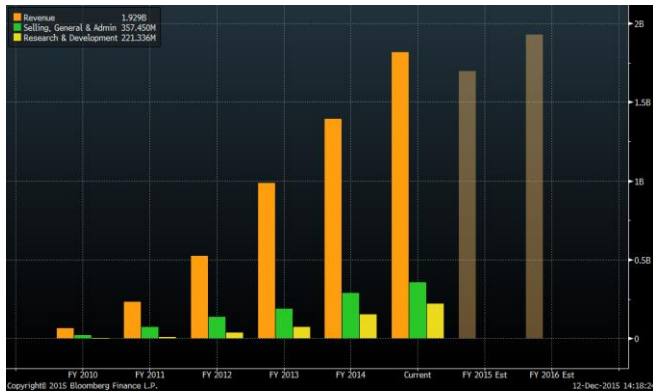
As opposed to most of digital camera providers, GoPro sells premium camera and do not positioned its business as a low-cost provider. They manage to increase the technology of their product so as to give a unique experience to their customers who will pay a premium for that. Nowadays, GoPro provide 6 different cameras which are sell at \$129.99 for the cheapest one to \$499.99 for the most expensive one. The firm distinguish itself by offering the latest quality image and latest technology in its product. Let's take the example of its last camera, the "HERO4 Black". This camera is the first camera of its kind to offer the possibility to record in ultra-high-resolution. This camera is 2x more powerful than the previous model thanks to its new processor, its powerful new features and its new technologies incorporated. Besides technology improvement,

GoPro's product differentiate themselves by being slight, transportable, waterproof and easily connected with other mobile devices. GoPro completes its differentiation by selling various mounts which allow consumers to capture the moment they want without even needed their hands. GoPro's marketing is mainly focus on sport activities and most of their consumers buy these cameras for this purpose. On the Software side, GoPro provide with its camera a software called "GoPro Studio", a platform that allow customers to work on their videos. Consumers are able to modify their files by adding some music, adding effects or simply to create a professional quality clip of their best videos. Concerning mobile devices, GoPro's App provide to its users the ability to manage, store and to share content from the camera to mobile device. With its product and solutions, GoPro did cover all the steps that any individual would do to capture the moment of his/her life, from the transportable and wearable high-quality camera to the wirelessly transfer on mobile device for compilation or sharing. Right now, The camera and accessories business represents 100% of GoPro's sales, where 63.9% of them occurred in Americas, 26.6% in EMEA area and 9.5% in the APAC area for the fiscal year ending in 2014.

Financials

2014 has been a very profitable year for GoPro. The company has managed to increase its sales by 41.4% from \$985 million to \$1.4B. Revenues are constantly increasing every year and are at a level of \$1.82B for the LTM. This increase of revenues can be explain by the working current strategy of international expansions. Indeed, this growth was mostly driven with an increase in sales in the EMEA and APAC area of both 175%, despite a decrease in sales in both Australia and New-Zealand due to a strong dollar. GoPro wants to increase its positions in these areas as we are expected to see an increase in the residual income per capita, which led GoPro's management to believe that there is an opportunity for future sales growth. In 2014, 5.18 million units were sold compare to 3.85 million the previous year. GoPro do believe that sales should continue to increase in the coming years for some reasons that I will describe in the valuation part. As you can see on the graph below, the increase in revenue (orange)

is possible thanks to a continuous investment in both Research & Development (yellow) and in Selling, General & Administrative expenses (green). The new technologies available in GoPro's products is possible with the increase of these expenses are and mandatory as consumers are expected a premium product with a high quality standard compare to the average industry, just like Apple do with its iPhone.



As a result, the Net Income has risen from \$128.1 million in 2014 to \$192.8 million in the LTM. This cash could be used for further research to develop higher technological product in the future. Another notable aspect which proves its financial health is its absence of debt. GoPro managed to decrease both its short-term and long-term debt to 0 in 2014. This decrease in debt should be very much appreciated by investors.

Valuation

As you may have notice, GoPro's stock price have declined in one year by 80%. Indeed, in last December, the stock was traded for \$80 whereas it is worth \$19.15 currently. The drop started on January and after a quick recovery until July, it continue its decline to reach its current level. There is two factor that can explain this decline. The first one is that earlier this year in January, Apple received the right from the U.S. Patent and the Trademark Office to patent for a remote camera control for its Apple Watch. This news afraid investors who believed that Apple could take GoPro's market share in the camera business. Indeed, according to my section about Porter's 5 forces, I said that threat of new entrants was medium because GoPro's main advantage over competitor was its powerful brand name and its high technological assets. Apple have those two criteria and could really

hurt GoPro's business if they decided to launch their own cameras. The second reason for the stock price drop is the bad criticism for GoPro's last camera "Hero4 black". During the Q3 conference call, GoPro's management have explained some reasons about this lack of sales for this new product and decided to strengthen their marketing to an "aggressive level" to counter their lack on advertisement expenses for this product. In addition to that, the company has been blame for its lack of innovation in its product. Indeed, for now they pretty much offered cameras with higher quality and few new functionality that could revolutionize the company. GoPro responded to this blame by launching their first drone called Karma for the year 2016. Furthermore, they will also launch a six camera rig that will enable spherical photos and videos to capture virtual reality. Both distributors and retailers are excited about this two new product category, and should satisfy those who were waiting for innovations. On a more traditional valuation point of view, one of the most remarkable aspects of GoPro's balance sheet is their EBITDA margins. Indeed, it has grown over year and outperform the revenue growth. From 2014 to the LTM, revenues increased at a 30% growth while EBITDA increased by 43.5% for the same period. This ratios shows that the company is currently creating value by eliminating some expenses. Another ratio which proves GoPro's ability to create value is the ROIC/WACC ratio. As you can see on the graph below, the ratio is always above 1, with a 5-year ratio of 2.84, which proves the firm's constant ability to create value to its shareholders.

	LTM	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	
ROIC	32.8%	39.6%	35.3%	36.7%	38.1%	35.2%	33.7%	5-year average
WACC	12.6%	12.6%	12.6%	12.6%	12.6%	12.7%	12.7%	
ROIC/WACC	2.61	3.14	2.81	2.91	3.02	2.78	2.66	

The company also announced during its Q3 earning call its willingness to repurchase about \$300 million of shares in the Quarter which is a good thing to know since that means the firm believes its current price is undervalued. I valued the company using a discount cash flow model that focus on the ROIC. You will find a summary of the outputs used in my proforma at the end of this report. I used a fast decay growth rates to determine the speed of reversion toward long-term stability. For revenue growth, I based

my assumptions on analysts' estimates until 2018 and following years have been computed to decline in order to reach the long-term GDP growth of 3%. I put a market risk premium of 6.9, an additional 1.4 compare to the U.S. risk premium since 36% of the firm's revenue come from EMEA and APAC area. Then, I decided to make the valuation of the company converging to sub-industry for the continuing period. Operating costs are unlikely to change so they are computed to remain the same in the future. According to my calculations, GoPro could revert to a one-year target price of \$37.81, a level reached for the last time in September, which represents an increase of 105.58% compare to the current stock price

Conclusion

I do believe that GoPro current stock is undervalued and that buying it at this level could be a good investment opportunity. I do think that there is an upside potential greater than its downside since retailers are excited to sell GoPro's new products for 2016. Financially, I do think that they have the potential to grow and to keep their positions as a leader in the digital camera industry. GoPro seems to have learned from its mistakes and is following a good path of innovation for 2016 which should bring some value to the firm.

CENTER FOR GLOBAL FINANCIAL STUDIES

GoPro, Inc.	gpro	Analyst Nicolas Morand	Current Price \$18.39	Intrinsic Value \$34.88	Target Value \$37.81	Dividend Yield 0%	1-y Return: 105.58%	BULLISH		
General Info		Peers		Market Cap.		Management				
Sector	Consumer Discretionary	Fitbit Inc	\$6,898.19	Professional		Title		Comp. FY2012	Comp. FY2013	Comp. FY2014
Industry	Household Durables	Garmin Ltd.	\$7,065.50	Woodman, Nicholas	Founder, Chairman and Chief Executive Offi	\$2,118,462	\$1,852,791	\$1,852,791	\$77,427,175	\$77,427,175
Last Guidance	July 21, 2015	Apple Inc	\$647,686.20	Bates, Anthony	President and Director	\$0	\$0	\$0	\$27,586,968	\$27,586,968
Next earnings date	February 5, 2016			Lazar, Jack	Chief Financial Officer	\$0	\$0	\$0	\$10,337,985	\$10,337,985
Market Data		Skulleady, Inc	\$118.40	Zezima, Sharon	General Counsel and Secretary	\$0	\$802,767	\$802,767	\$452,380	\$452,380
Enterprise value	\$2,076.47	Emerson Radio Corp.	\$26.59	Brown, George	Vice President of Communications	\$0	\$0	\$0	\$0	\$0
Market Capitalization	\$4,449.48			Crandell, Paul	Senior Vice President of Marketing	\$0	\$927,518	\$927,518	\$0	\$0
Daily volume	0.22			Past Earning Surprises						
Shares outstanding	137.52			Revenue		EBITDA		Norm. EPS		Standard Error of "Surprise"
Diluted shares outstanding	147.35			Last Quarter	-7.05%	-16.28%	-13.79%		2.76%	
% shares held by institutions	26.01%			Last Quarter-1	6.04%	19.00%	34.62%		8.26%	
% shares held by insiders	33.21%	Current Capital Structure		Last Quarter-2	6.64%	23.95%	33.33%		7.82%	
Short interest	22.70%	Total debt/ Common Equity (LTM)	0.01	Last Quarter-3	8.99%	28.31%	41.43%		9.42%	
Days to cover short interest	3.25	Cost of Borrowing (LTM)	0.00%	Last Quarter-4	5.34%	41.00%	50.00%		13.64%	
52 week high	\$69.75	Estimated Cost of new Borrowing	2.63%	Standard error	2.8%	9.6%	11.1%		5.38%	
52-week low	\$16.77	Altman's Z	14.53	Standard Error of Revenues prediction	2.8%			Industry Outlook (Porter's Five Forces)		
5y Beta	0.00	Estimated Debt Rating	AAA	Imputed Standard Error of Op. Cost prediction	9.2%			Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th Percentile)		
6-month volatility	61.99%	Current levered Beta	1.41	Imputed Standard Error of Non Op. Cost prediction	5.6%					
		LTM WACC	12.59%	Proforma Assumptions						

Convergence Assumptions		General Assumptions		Items' Forecast Assumptions				Other Assumptions		
		Money market rate (as of today)	0.37%	Base year (LTM)		Convergence period (Sub-industry)		Adjustment per year		Tobin's Q
All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years		Risk-Free rate (long term estimate)	2.93%	Operating Cash/Rev.	0.00%	0.00%	0.00%	Excess cash reinvestment		Money market rate
		Annual increase (decrease) in interest rates	0.1%	NWV/Rev.	7.95%	7.95%	0.0%	Other drains on the firm's assets		\$0.00
		Marginal Tax Rate	37.5%	NPPE/Rev.	3.72%	3.72%	0.0%	Capitalization		
		Country Risk Premium	6.9%	Dpre/NPPE	31.87%	31.87%	0.0%	100% of all rent expenses are capitalized and amortized 'straightline' over 10 years		
				NOPAT MARGIN	18.43%	18.43%	0.0%	100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years		
Forecast Year		Revenue Growth Forecast		Revenue (\$) Forecast		Op. Exp./Rev.		Valuation Focus		
LTM				\$1,817.28	SBC/Rev.	4.50%	4.50%	E&P expenses are not capitalized		
FY2015	-6.6%			\$1,696.92	Rent Exp./Rev.	0.40%	0.40%	SG&A expenses are not capitalized		
FY2016	13.7%			\$1,928.82	R&D/Rev.	11.17%	11.17%	DCF Valuation		
FY2017	18.0%			\$2,276.19	E&D/Rev.	0.00%	0.00%	Relative valuation		
FY2018	22.4%			\$2,785.35	SG&A/Rev.	16.25%	16.25%	Distress Valuation		
FY2019	12.7%			\$3,138.66	ROIC	33%	32.81%	0%		
FY2020	7.8%			\$3,384.80	EV/Rev.	2.00x	2.0x	Monte Carlo Simulation Assumptions		
FY2021	5.4%			\$3,568.29	EV/EBITDA	8.32x	8.32x	Revenue Growth deviation		
FY2022	4.2%			\$3,718.54	Debt/Equity	1%	1.9%	Normal (0%, 1%)		
FY2023	3.6%			\$3,852.60	Unlevered beta	1.40	1.29	Operating expense deviation		
FY2024	3.3%			\$3,979.84	Dividends/REV	0%	5%	Normal (0%, 1%)		
Continuing Period	3.0%			\$4,099.23				Continuing Period growth		
								Triangular (6.693%, 6.9%, 7.107%)		
								Country risk premium		
								Triangular (2.91%, 3%, 3.09%)		
								Intrinsic value σ(e)		
								\$0.09		
								1-year target price σ(e)		
								\$0.10		

Valuation									
Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share	Monte Carlo Simulation Results	
LTM	32.8%	12.6%	\$1,241.78	\$4,875.06	\$273.39	137.52	\$34.36		
FY2015	39.6%	12.6%	\$1,160.58	\$4,917.20	\$98.01	137.52	\$36.99		
FY2016	35.3%	12.6%	\$1,317.02	\$5,282.40	-\$79.02	137.52	\$41.07		
FY2017	36.7%	12.6%	\$1,551.35	\$5,699.32	-\$264.32	137.52	\$45.62		
FY2018	38.1%	12.6%	\$1,894.81	\$6,171.56	-\$460.15	137.52	\$50.11		
FY2019	35.2%	12.7%	\$2,133.15	\$6,524.87	-\$712.35	137.52	\$54.30		
FY2020	33.7%	12.7%	\$2,299.19	\$6,800.11	-\$1,227.71	137.52	\$59.12		
FY2021	32.9%	12.7%	\$2,422.97	\$7,030.91	-\$1,759.85	137.52	\$63.83		
FY2022	32.6%	12.7%	\$2,524.32	\$7,238.69	-\$2,120.71	137.52	\$67.83		
FY2023	32.4%	12.8%	\$2,614.76	\$7,435.55	-\$2,437.87	137.52	\$71.63		
FY2024	32.3%	12.8%	\$2,700.59	\$7,627.96	-\$2,730.44	137.52	\$75.32		
Continuing Period	32.8%	12.9%	\$2,302.92						
Sensitivity Analysis									
Revenue growth variations account for 95.9% of total variance									
Risk premium's variations account for 2.5% of total variance									
Operating expenses' variations account for 1.4% of total variance									
Continuing period growth variations account for 0.2% of total variance									

The 3σ(e)-adjusted intrinsic value is \$34.88; the 3σ(e)-adjusted target price is \$37.81; and the analysts' median target price is \$39.76