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GoPro Inc: ...and action!

Consumer Discretionary: Household Durables

GoPro Inc. (GPRO.US)

GoPro (GPRO) as economies reopen, camera company GoPro is perfectly positioned to capture the moment. With its growing direct-to-consumer (DTC) sales and expansion of its camera app, the company's transformation is now generating meaningful results. After a challenging 2020, this year is seeing a meaningful turnaround and the company looks poised for a period of sustained growth in the year ahead. Large companies are not unlike oil tankers, both of which require time to turn around. And turning them around becomes all the more challenging when the market expects failure and punishes shares accordingly. This was the GoPro's story over the past few years, but like a champ, the company pulled itself up from the mat and is back in fighting form thanks to the successful transformation of its business model. Indeed, the company is a turnaround story poster child. While GoPro remains the world's leading action camera company, it now has more control over sales thanks to its successful DTC channel and fast-growing subscriber base of more than 1.34mn paying users, which recorded 168% YoY growth in the latest quarterly results.

Our recommendation for GoPro is based on the following points: 1) Successful e-commerce execution. GoPro previously depended on channel partners and resellers to drive sales at deep trade discounts. The pandemic created an opportunity for the company to execute its online-first strategy, and sales on GoPro.com continue to notch strong gains, making record-high contributions to the company's revenue mix. 2) A swelling subscriber base, with the new QUIK app at USD10/year providing an entry-level option to the full-featured USD50/year GoPro subscription. 3) Resumption of travel. As borders open for travel, demand for GoPro cameras should benefit. 4) Premium brand identity. In 3Q GoPro ASPs continued to rise, reaching USD381, up 25% YoY, indicating a migration toward higher-end and newer cameras, and the company's evolution to a specialty consumer brand. 5) Considerable gains in profitability, on the back of e-commerce gross margins, rising subscription revenue mix, and workforce reductions.

With a current P/S of only 4.75x, valuation is also appealing. At GoPro's current share prices near USD10.61, its market cap stands at USD1.7bn.

In summary, GoPro is an interesting turnaround play and could prove to be one of the better investment opportunities in US equities.

Stock pick for the fourth week of December

GoPro, Inc. (GPRO)

About GoPro, Inc. (GPRO)

GoPro, Inc. (GPRO) is an American technology company founded in 2002 and is based in San Mateo, CA. The company produces action cameras as well as mountable and wearable accessories and develops its own mobile apps and video-editing software.

Rationale

GoPro's is a camera company but its subscription business and pivot to pricier cameras are driving improved profitability.

Subscription revenues accounted for 15% of GoPro.com segment revenues in 3Q21, more than doubling in a year. At end-3Q, there were a total of 1.34mn GoPro subscribers, up 168% YoY, with roughly 840,000 new GoPro subscribers added since end-3Q20.

GoPro at 9x FCF is, we believe, a great bargain for this turnaround company.

While there is no visible catalyst at present, at 9x FCF, with cash growing on its BS growing, investors could do well to buy shares at the current price level and wait for the stock to rise. While GoPro has undergone a series of let-downs since its IPO in 2014 such as not succeeding in moving into media, being crushed in the drone market, and not turning its 360-degree video cameras into a big business. In addition, it has faced challenges related to inventory, pricing, and improvements in smartphone cameras. Nevertheless, the company has built a wide moat around its niche where it consistently wins and continues to improve its products. And even more promising, the decision to focus on the subscription model by transforming the former cloud-storage subscription program to an all-around subscription model with other benefits. The new GoPro subscription offers an array of benefits to customers. It includes a discount for purchases, unlimited cloud storage, free camera replacements, premium access to the Quick app, and discounts on products sold on GoPro.com. The direct-to-consumer (DTC), subscription-centric strategy is transforming GoPro into a high-margin, high profit business with strengthening growth. The DTC model is fueling rapid improvements, and this is evidenced in the results in the past couple of quarters, in which revenues and margins are both on the rise. Subscription revenues accounted for 15% of GoPro.com segment revenues in 3Q21, more than doubling in a year. At end-3Q, there were a total of 1.34mn GoPro subscribers, up 168% YoY, with roughly 840,000 new GoPro subscribers added since end-3Q20. A year has passed since customers who received subscriptions with their HERO9 Black purchase and the subscriber retention rates from this group are strong. The company should flirt with the 2.0mn subscriber mark by end-2021 and the subscription business should make meaningful contributions to margins in the future. GoPro currently sells roughly three million units per year. Based on the number of units sold, we believe that conservatively, the company should be able to easily add one million subscribers per year.

Subscription business continues to record healthy growth

GoPro is successfully transforming its HW-based action camera offering into a more lucrative subscription-based DTC service. To date, the company has onboarded more than a million DTC

subscribers and the growth is accelerating. In 1Q21, GoPro launched a camera app called Quik to compete with smartphone cameras and capture consumers who are not buyers of its products. Quik aims to replace the native camera app on phones. Its key features include 1) a speed tool for fast, freeze, and slow motion; 2) premium filters and themes; 3) royalty-free music; and 4) Mural, the company's premium content-organizing tool. While Quik is free to use, the majority of its features are available only with a paid option which costs USD1.99/month or USD9.99/year. The GoPro.com subscription, which is used by loyal customers, is where the company make its real money. Subscribers to the company's flagship service, GoPro.com pay USD69.99/year for unlimited cloud storage and product discounts and receive the full version of Quik free of charge. The strong growth in subscriptions is fundamental for GoPro's diversification away from HW as subscriptions enjoy very high gross margins of 70%-80%. The combination of execution and a continued attach rate to subscription services should continue to contribute to the company's fast-improving financials.

The DTC sales model is a major factor behind the company's newfound success. By eliminating retailers from the equation, GoPro earns far more from each camera sold. The company sells via GoPro.com, and as it encompasses a larger portion of the revenue pie, the gross margin is seeing a considerable rise. GoPro's Open GoPro initiative, which it launched in 2Q is helping the company to expand its addressable market. With the initiative, GoPro enables third parties to integrate its cameras into their own products, e.g., robots, drones, smart devices, sports broadcasting, etc. While the revenue potential is still unknown, we think there is considerable potential as a growing number of robotics labs and companies are increasingly adopting GoPro solutions for a variety of reasons and the move it highlights GoPro's aggressive strategy to grow the company.

Now that the company is enjoying continued success with its fast-growing, high-margin subscription business, it appears that its earnings are back on track.

While action cameras remain the central component of GoPro's business, it has optimized its sales mix to improve profitability. Rather than selling its products to retailers, GoPro has made itself an ecommerce power and uses its website to market and sell direct to consumers. By using the direct sales option, GoPro retains a larger portion of earnings and fosters closer relations with its customers. While GoPro has a history of losing money, it was making vast improvements prior to the onset of the pandemic and appeared as if it would have turned to the black in 2020 if not for covid. Now that the company is enjoying continued success with its fast-growing, high-margin subscription business, it appears that its earnings are back on track.

Brand power powers sales

GoPro's brand awareness has reached a level in which the product name has become a commonly used noun.

GoPro's brand awareness has reached a level in which the product name has become a commonly used noun. In a similar vein that consumers use iPhone, Kleenex, or Realtor rather than 'phone', 'tissue paper', or 'real estate agent', they are saying GoPro rather than 'action camera'. For a brand to achieve such a level of recognition means there is a very wide moat. And the similarities between GoPro and Apple are nothing short of remarkable. For example Both are American companies selling pricey top-of-the-line products; 2) created a market for themselves by developing innovative products that nobody knew they needed; 3) Built strong brands that have become status symbols; 4) have deep moats with an easy-to-

use SW+HW ecosystems that is increasingly difficult to penetrate; 5) successfully defends market share due to loyal customers, strong brands, and deep entrenchment in the US despite the challenges from many Asian-based competitors, who produce better products at more affordable prices.

GoPro's economic moat in 2021 is wider than it has ever been, which bodes well for continued outperformance in the years ahead. Like Apple's model which ties HW and SW together via subscription-based cloud and other relevant apps, GoPro customers are now very connected to the company. Customers large amounts of video content on the cloud are less likely to depart from the GoPro ecosystem. The GoPro name being synonymous with action cameras is high brand recognition and is also an invaluable strategic advantage over its competition. In addition, in 2021 is that social media following has become extremely valuable compared to just a few years back and companies such as GoPro, have more data and are more efficient in monetization data. GoPro's presence on social media is nothing short of staggering: more than 21mn Instagram followers, 11mn Facebook followers, and 10.5mn YouTube subscribers, For a company of its size, these are fantastic numbers, which are hard to achieve by many larger companies.

High brand recognition and a powerful social media presence, puts GoPro in a much better position than would-be competitors, giving pricing power while simultaneously giving it a low-cost marketing machine, which is unavailable to competitors. GoPro's strong brand recognition it successfully migrated to DTC sales. By raising the portion of DTC sales from less than 10% up to 40%, GoPro is free of the retail costs that competitors are saddled with. With this cost savings, GoPro can raise its margin or lower its sales price to secure market share., This provides it with a major competitive advantage that is very difficult for competitors to copy.

3Q earnings results

On Nov 4, GoPro announced 3Q earnings. The results proved the company is on an upward growth track. Revenue was USD317mn, up 13% YoY from USD281mn. GoPro.com total revenue, including subscription revenue, rose 16% YoY to USD94mn, accounting for 30% of total revenue. Subscription revenue was up 143% YoY to USD14mn. GoPro subscriber count was up 168% YoY to 1.34mn. GAAP and non-GAAP gross margins were 43.6% and 43.8% respectively, up from the prior year period at 35.4% and 36.2%, respectively. GAAP net income was USD312mn, or USD1.92/ sh, up from USD3mn or USD0.02/sh in the prior year period. Non-GAAP net income was USD55mn, or USD0.34sh, up from USD31mn, or USD0.20/sh in the prior year period. GAAP and non-GAAP operating expenses were USD89mn and USD80mn, respectively, compared to USD90mn and USD68mn, respectively in the prior year period. Adjusted EBITDA was USD60mn, compared to USD39mn in the prior year period. Cameras with priced at or above USD300 represented 98% of 3Q21 camera revenue, up from 83% in the prior year period. 3Q21 Street ASP was USD381, up 25% YoY. The company continues to lift its subscriber guidance. It expects 1.7mn subscribers by year-end and raised guidance to now surpass 1.7mn subscribers by end-2021. Based on the continued strength in the underlying business, management raised its outlook for FY fiscal 2021.

Fig 1. GoPro is a well-established brand



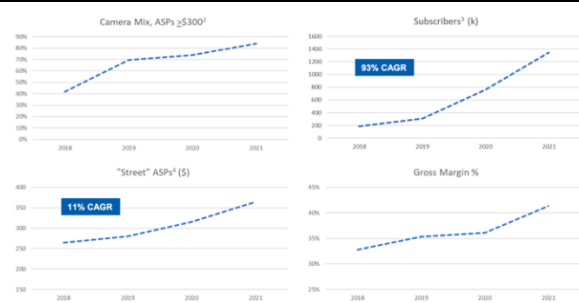
Source: GoPro, Hyundai Motor Securities

Fig 2. Executing on new strategy



Source: GoPro, Hyundai Motor Securities

Fig 3. Strategic metrics driving financial performance



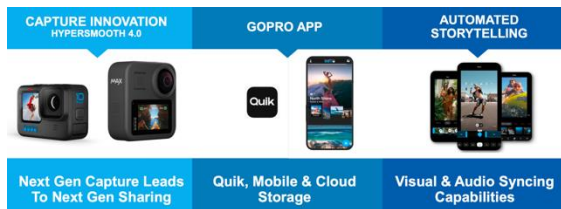
Source: GoPro, Hyundai Motor Securities

Fig 4. Seamless product ecosystem + virtual cloud infrastructure



Source: GoPro, Hyundai Motor Securities

Fig 5. Technology innovator



Source: GoPro, Hyundai Motor Securities

Fig 6. Best-in-class cameras

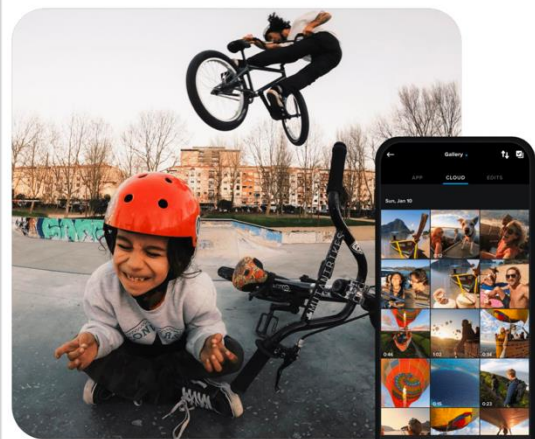
	10	S	8	MAX
Camera	\$499.99	\$399.99	\$299.99	\$499.99
Camera with 1 Year GoPro Subscription ¹	\$299.99	\$199.99	\$199.99	\$399.99
Key Features				
Processor	GP2	GP1	GP1	GP1
Front Screen	Color LCD 1.85" (4.7mm)	Color LCD 1.85" (4.7mm)	Black / White / Color / Oled	Touch Screen (4.7" Front / Rear Touch)
Stabilization	HyperSmooth 4.0	HyperSmooth 3.0	HyperSmooth 3.0	HyperSmooth 4.0
Video Resolution	4K60 (10-bit)	4K60 (10-bit)	4K60 (10-bit)	5.6K (10-bit)
Weight	63.6g (2.24oz)	63.6g (2.24oz)	63.6g (2.24oz)	63.6g (2.24oz)
Voice Control	Yes	Yes	Yes	Yes
Range / Waterproof	30m (98.4ft)	30m (98.4ft)	30m (98.4ft)	30m (98.4ft)
Rear Touch Screen	No	No	No	Yes

Source: GoPro, Hyundai Motor Securities

Fig 7. Growing GoPro.com subscription business

\$49.99 / year
>1.34M Subscribers¹

- Up to \$100 off a new GoPro²
- Unlimited cloud backup + auto uploads³
- Up to 50% off @ GoPro.com
- No questions asked damage replacement⁴
- Full access to the Quik app⁵
- Share on the Go



Source: GoPro, Hyundai Motor Securities

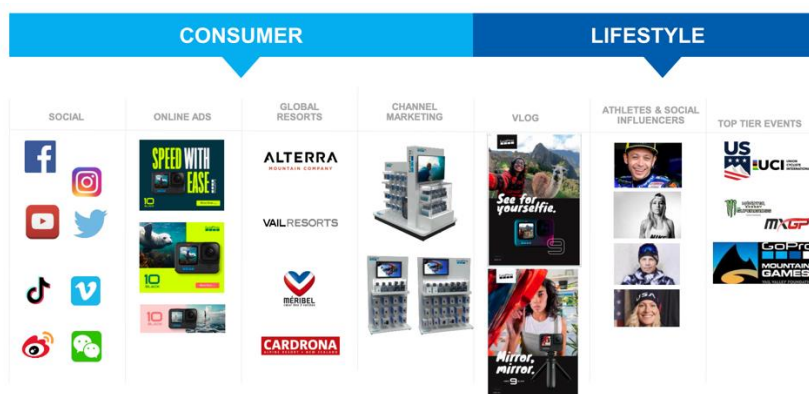
Fig 8. Quik mobile app subscription

\$9.99 / year
>168k Paid subscribers¹

- Import photos and videos from your phone, GoPro, or other camera
- Unlimited cloud backup at original quality
- Mural automatic video creation
- Powerful, simple editing tools
 - Video speed
 - GoPro-exclusive filters
 - Premium themes
 - Frame grabbing
 - Sync with GoPro original music
- Easy to share
- Use phone as GoPro remote

Source: GoPro, Hyundai Motor Securities

Fig 9. Multi-channel marketing strategy



Source: GoPro, Hyundai Motor Securities

Valuation and risks

The company's P/E of 4.75x implies a substantial discount compared to household durables P/E of 14.04x and a deep discount to the S&P 500's 30.15x.

GoPro's market cap as of Dec 29 is USD1.7bn. The company's P/E of 4.75x implies a substantial discount compared to household durables P/E of 14.04x and a deep discount to the S&P 500's 30.15x. Furthermore, its P/B of 2.54x is a considerable discount vs. the S&P 500's 4.87x and a significant discount vs. other companies in its sector. According to these and other key valuation criteria, we find the stock very attractive as it offers both growth and a deep discount relative to peers and the broader index.

After many years of being extremely overvalued, GoPro is now appealing in terms of valuations and pricing and is now trading at only

The consensus estimate for 2021 revenues is USD1.16bn and USD1.24bn in 2022, which means that there is now a visible growth trend. EBITDA is forecast to be in the black this year at USD162.49mn, and USD182.59bn estimated for 2022. Over the following two years, we see the company generating roughly USD1/share in earnings. And what is more promising is that margins are on a northward march as the gross margin is expanding from the low 30% level to the high 40% level. While all of these are indicative of a growing company in good health, valuing GoPro is a challenge as it essentially made its

USD10.20/sh. own market and as such there are few companies which can be used for a direct comparison. Having said that, the stock is trading at discounts across several metrics and at end 3Q21 it is basically debt-free as total debt amounts to USD284.36mn, which is offset by its more than USD378mn in cash and cash equivalents. In short, after many years of being extremely overvalued, GoPro is now appealing in terms of valuations and pricing and is now trading at only USD10.20/sh.

The bottom line

Consumers love GoPro products, and this is evident it is repeat business and growing number of paying subscribers. The company now has a way to leverage its industry-leading hardware product into a recurring, high-margin income stream that should grow into a double-digit percentage of total revenue in 2022.

If the company continues to outperform and adds subscribers at accelerated levels, a re-rating will come soon. As the market sees the probability of consistent revenue growth, it will reward GoPro ahead of earnings reports. The company's future looks bright, and the valuations look attractive. GoPro might prove as one of the better investments of the year.

Fig 10. GoPro cameras are increasingly used on robots and drones



Source: Venture Beat, Google, Columbia University, Hyundai Motor Securities

Fig 11. Robust global sales channels



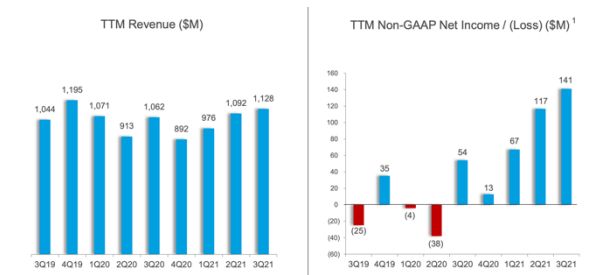
Source: GoPro, Hyundai Motor Securities

Fig 12. Recent ESG initiatives

- Signed the “In Solidarity Project’s Outdoor CEO Diversity Pledge” expressing GoPro’s commitment to creating a more inclusive and diverse GoPro and to increase our positive social impact. The Pledge provides a framework to help us establish meaningful goals and hold ourselves accountable.
- Appointed *Shaz Kahng* to GoPro’s *Board of Directors*, a former senior executive at Nike and Lucy Activewear who brings a wealth of consumer product strategy and executive leadership experience. Shaz joins an already diverse board, which exceeds CA corporate board diversity requirements.
- GoPro’s commitment to *environmentally conscious, plastic-free packaging* was reflected in its latest HERO10 BLACK camera launch, with “packaging” in the form of a high-quality, durable travel case that’s designed to fit additional GoPro mounts and accessories.

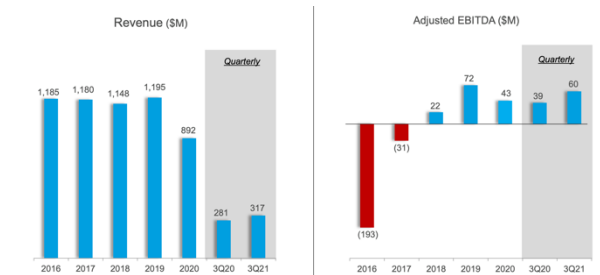
Source: GoPro, Hyundai Motor Securities

Fig13. Improving profitability I



Source: GoPro, Hyundai Motor Securities

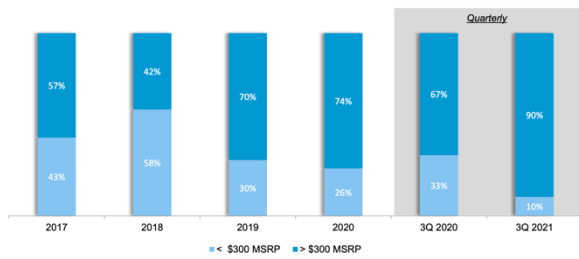
Fig 14. Improving profitability II



Source: GoPro, Hyundai Motor Securities

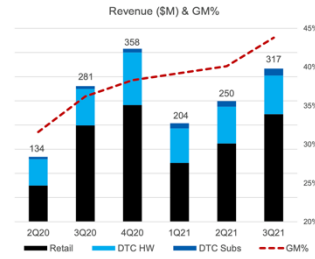
Fig 15. Higher ASP camera mix

Fig 16. Growing revenue and gross margins



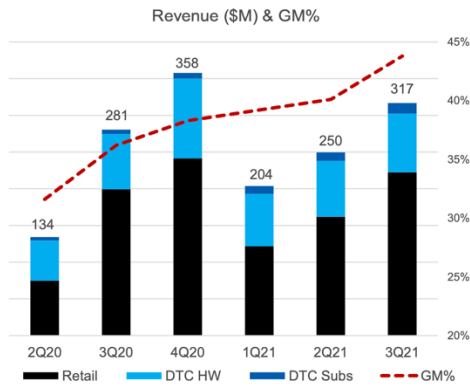
Source: GoPro, Hyundai Motor Securities

Fig 17. Robust subscriber growth

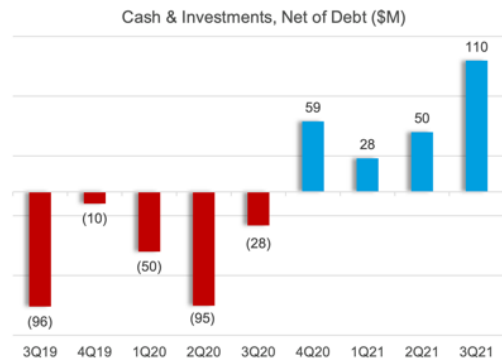


Source: GoPro, Hyundai Motor Securities

Fig 18. Delivering strong cash flow



Source: GoPro, Hyundai Motor Securities



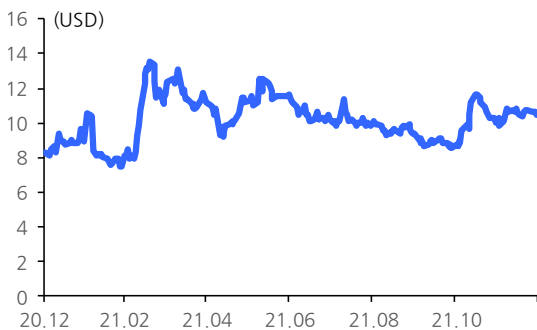
Source: GoPro, Hyundai Motor Securities

Fig 19. Peer Valuation

Company	Ticker	Market Cap(USDmn)	P/E Ratio	P/S Ratio	EV/EBITDA	Sales Growth (%)
GoPro, Inc.	GPRO	1,635	4.61	1.51	13.38	NA
Sony Group Corporation	SONY	156,511	19.17	1.84	0.08	NA
Emerson Radio Corp.	MSN	18	NA	2.44	1.03	NA
Olympus Corporation	OCPNY	29,737	34.84	3.83	0.15	NA
Garmin Ltd.	GRMN	26,292	23.34	5.31	17.03	NA

Source: Thomson One, Hyundai Motor Securities

Fig 20. GPRO Stock Price



Source: Bloomberg, Hyundai Motor Securities

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