

Howard University Investment Club

Stock Recommendation for GoPro INC

Alston Clark



Company Overview

The company was founded by [Nick Woodman](#) in 2002. Woodman started the company following a 2002 surf trip to Australia in which he was hoping to capture quality action photos of his surfing, but could not because amateur photographers could not get close enough, or obtain quality equipment at reasonable prices.^[2] His desire for a camera system that could capture the professional angles inspired the 'GoPro' name.

GoPro, Inc., incorporated on August 24, 2011, produces mountable and wearable cameras and accessories, which the Company refers to as capture devices. The Company offers HERO line of capture devices, which include HERO2, HERO3 camera, the HERO3+ camera, HERO4, and soon the HERO5 and KARMA Drone. The Company competes with Canon Inc., Nikon Corporation, Olympus Corporation, Polaroid Holding Corporation and Vivitar Corporation, JVC Kenwood Corporation, Panasonic Corporation, Samsung Electronics Co., Sony Corporation, Toshiba Corporation and Garmin Ltd.

Biographies of Executive Suite

Key Executives

Nicholas Woodman, CEO

associated with capturing, managing, sharing and enjoying life's most meaningful moments. GoPro's highly versatile and gear-mountable cameras are used by millions of consumers, athletes and video production professionals and GoPro content has spawned a burgeoning digital media channel. As an entrepreneur, Mr. Woodman got his start by founding an online promotions company, Funbug. When that venture failed in 2001, he embarked on an international surfing trip, which sparked an idea for the company's first product, the GoPro

HERO, a 35mm film-based camera that strapped to the wrist. In the years that followed, Mr. Woodman – along with friends, family and employees – innovated on both the camera and a wide array of mounting devices for everything from helmets to surfboards and even dog collars. Mr. Woodman holds a B.A. in Visual Arts from the University of California, San Diego. He lives in Woodside, California with his wife, Jill and their three children.

Anthony Bates, President Director

Anthony Bates has served as our President and as a member of our board of directors since June 2014. From June 2013 until March 2014, Mr. Bates was the Executive Vice President, Business Development and Evangelism of Microsoft Corporation, a software company. Mr. Bates was the Chief Executive Officer of Skype Inc., a provider of software applications and related Internet communications products, from October 2010 until its acquisition by Microsoft in 2011, subsequent to which Mr. Bates served as the President of Microsoft's Skype Division until June 2013. From 1996 to October 2010, Mr. Bates served in various roles at Cisco Systems, Inc., a networking equipment provider, most recently as Senior Vice President and General Manager of Enterprise, Commercial and Small Business. **Mr. Bates currently serves on the board of directors of Ebay Inc.**, a global ecommerce website, and VMware, a global leader in cloud infrastructure and business mobility. We believe that Mr. Bates is qualified to serve on our board of directors due to his extensive executive leadership experience in the technology industry, including the management of worldwide operations, sales, service and support areas.

Jack Lazar, CFO

Jack Lazar has served as our Chief Financial Officer since January 2014. From 2011 to 2013, Mr. Lazar was employed by Qualcomm where he served as senior vice president corporate development and general manager of Qualcomm Atheros. From 2003 until the company's \$3.6 billion acquisition by Qualcomm in 2011, Mr. Lazar served in a variety of positions and most recently as Atheros' chief financial officer and senior vice president of corporate development. In 2004, Mr. Lazar was CFO and part of the team that took Atheros public, raising \$145 million in capital as part of the IPO. During his tenure at Atheros, the company grew to over \$1 billion in revenue and acquired a variety of wired and wireless connectivity companies throughout North America and Asia.

Paul Crandel, Senior Vice President of Marketing

Paul Crandell has served as our Senior Vice President of Marketing since November 2014, and served as our Vice President of Marketing from August 2011 to November 2014. From January 2009 to August 2011, Mr. Crandell was the Co-founder of Q Sport Architects, a marketing

consulting firm. From November 2007 to November 2008, Mr. Crandell was the Vice President of Marketing at ICON Aircraft, an aircraft design and production company. From November 1998 to October 2007, Mr. Crandell served in various positions at Red Bull North America, a beverage manufacturer, including as the Director of Sports Marketing from December 2005 to October 2007. Mr. Crandell holds a B.A. in Law and Society from the University of California, Santa Barbara.

Porters 5 Forces

Intensity of Existing Rivalry

- Many firm: Sony, Garmin, Contour, LDLC
- Large industry size and Fast industry growth

Bargaining the power of suppliers

- Large number of substitutes inputs
- high competition among suppliers
- diverse distribution channel

Bargaining the power of customers

- Low dependency on distributors
- The product is important for customers
- Limited choice for the customer

Threat of new competitors

- A strong distribution network is required
- Strong brand names are important
 - Ex : Contour in the professional world
- Advanced technologies are required
 - Ex : Contour with HD and GPS

Threat of Substitutes:

- Nikon, Pantax, Olympus, Canon, Apple, ...
 - Lower Performance
 - Lower Quality
 - Differentiation between substantial productucts

Recommendation

- Create a drone
- Ensure that all approved drones, can be retrofitted to hold a GOPRO 5
- Maintaining the same quality standard and innovation to expand.

SWOT ANALYSIS

Abstraction

Strengths <ul style="list-style-type: none">-domestic market-barriers of market entry-reduced labor costs-high growth rate-skilled workforce	Weaknesses <ul style="list-style-type: none">-brand portfolio-future profitability-tax structure-cost structure
Opportunities <ul style="list-style-type: none">-income level is at a constant increase-new acquisitions-global markets-new products and services-growing demand for cameras because of drones	Threats <ul style="list-style-type: none">-increasing costs-rising cost of raw materials-tax changes-technological problems-price changes-growing competition and lower profitability

SWOT - Detailed

Strengths

– Having a “niche” product in their industry. GoPro has developed a camera capturing system that can go along with the most extreme daredevils and catch never before seen

footage. This footage can then be uploaded with ease from compatible software capabilities and shared worldwide through GoPro's social media sites.

– Major consumer base. GoPro has become a very popular product for outdoor enthusiasts who like to share or promote their adventures. This is ranging from surfing, hiking, sky diving, skiing, snowmobiling, wake boarding, and on and on and on.....

– Management and Marketing Team. GoPro has a young and highly motivated staff, all who share the same vision for the future of their product, and seem to be highly passionate about the success of their creation. Furthermore, the marketing team has worked wonders for GoPro, who have made outdoor enthusiasts social media rockstars overnight by the promotion of self uploaded videos on the internet. Also, the marketing team is beginning to tap into major sporting markets, like the NHL and PGA, with the intention to capture in action video through the eyes of the athletes which would be a ground breaking.

Weaknesses

Poor financials. As an upstart company in a highly competitive technological industry, GoPro has had to exert dollars into research and development to create and maintain their competitive advantage. This leads to a higher cost of revenue which has hurt GoPro's ROE(Return on Equity), ability to generate profit from shareholder's investments, and ROA(Return on Assets). Relative to competitors on the industry, GoPro is behind in these compared ratios.

Cyclical Market. GoPro competes in a cyclical market. One has to wonder how long their niche will last and can they keep producing improvements to maintain the hype from consumers.

One line. GoPro has one product line, primarily their “hero” cameras along with the accessories to compliment. Competitors in the industry have other product lines to fall back on when one or the other is struggling.

Experience. Some of the companies in the industry have been around for years and have gone through challenges and changes and have had to find ways to resurge when falling down. Can GoPro manage potential road blocks in the future?

Opportunities

Major Sporting Events. GoPro has signed on with the NHL and the PGA tour and plans to capture new fan footage. Fans will be able to see the game from angles never seen before and feel like they are with a player in the moment. It has been proposed that a fan can log into to GoPro’s channel (similar to youtube) and follow a player around during the game and see things through their favorite player’s eyes. This has potential for GoPro to expand to many different sports and take over before competitors come in.

Social Media. It seems to be the newest trend for people to promote their lives via social media. With all that GoPro has their hands in right now, one has to wonder how far their marketing pitch can reach as everyone is searching for to capture that perfect moment.

Mergers/Acquisitions. With GoPro’s initial success, will competitors want to join their team and double up on products and services they offer.

New products/services. As GoPro continually improves their staple ‘hero’ camera line, they may discover other products and services to include into their mix along the way to diversify their business.

Threats

Numerous competitors. There are several companies out there who have access to or the knowledge of GoPro's technology and can enter and flood the market.

Technology. It is no secret to major companies like Sony how GoPro is succeeding as Sony has been a powerhouse in this industry for years. It is just a matter of time for companies like Sony to put together their plan to one up GoPro. However, can Sony keep up? GoPro has captured an early loyal fan base and is determined to expand their boundaries.

Trends. How long will the trend last and when will people's tastes change for something new?

P/E, Profit Margin, & Leverage Analysis

P/E

GoPro's relatively high P/E ratio of 51.52 could indicate that this is a high growth stock.

Profit Margin

GoPro's profit margin as of Dec. 31, 2015 is -7.89%. The reason being, the 70% stock plummeted during the past 12 months due to concerns about its slowing sales growth, lack of a moat against cheaper competitors, and sluggish progress in creating efficient backup and editing solutions.

Leverage

I am honestly not sure what this entails.

Definition of Technology Sector

The technology sector is the category of stocks relating to the research, development and/or distribution of technologically based goods and services. This sector contains businesses revolving around the

manufacturing of electronics, creation of software, computers or products and services relating to information technology.

20 Biggest Companies by Market Cap in my Sector

Company	Market Value	Company	Market Value
Apple	246.99	Samsung	21.6
Google	173.65	Accenture	21.18
Microsoft	115.5	Intel	18.39
IBM	93.99	Cisco	16.06
Tencent	76.57	Siemens	15.5
Facebook	71.12	Huwei	15.34
Baidu	40.04	LinkedIn	12.2
SAP	38.23	Twitter	11.45
HP	23.04	Sony	7.99
Oracle	21.68	Adobe	7.4

Sub-Sectors Within Technology Sector

The financial technology sector

Financial technology, also known as **FinTech**, is an economic industry composed of companies that use technology to make financial services more efficient. Financial technology companies are generally startups founded with the purpose of disrupting incumbent financial systems and corporations that rely less on software.

Health Tech

Healthcare **technology** is defined as prevention and rehabilitation, vaccines, pharmaceuticals and devices, medical and surgical procedures, and the systems within which **health** is protected and maintained. **Technology** assessment in **health** care is a multidisciplinary field of policy analysis.

Education Tech

Educational technology companies are those which study and ethical practice of facilitating learning and improving performance by creating, using and managing appropriate **technological** processes and resources.

Hardware

One of the largest and most important sectors in the global market, hardware industry has grown by leaps and bounds in the recent few years. Fueling the economic boom and subsequent growth and development in the several industrialized nations of the world, hardware parts and components have become an integral part of business in nearly every major industry. From construction to IT and textiles; and from furniture to banking and biotech, we can feel the presence of hardware products everywhere.

Software

A sector that covers the development methods, programming languages, and tools to support them that may be used in the development of software upon which monetization is possible.

E-Commerce

Electronic commerce (ecommerce) is a type of [business model](#), or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet.

Companies I Cover

Company	Sub-Sector
GoPro	Hardware
Visa	Financial
Google	Software
Ambrella	Software
Amazon	E-Commerce
Costco	I would describe this as a tech enabled company.

Biggest Trends That Affect My Specific Sector

There have been large advancements toward the automobile industry. With self-driving, cars and spherical wheels on the horizon, the roads of 2020 will look much different than those of today.

Headlines:

Goodyear is working on spherical tires

<http://money.cnn.com/2016/03/08/technology/goodyear-spherical-tires/index.html>

If this became the new standard, it would completely disrupt the tire industry, which is becoming increasingly more tech enabled.

Google's new robot is now even more human

<http://money.cnn.com/2016/02/24/technology/google-robot/index.html>

We are literally entering the age of the robot. In years to come, machines like this will become much more common. Therefore software technologies that assist with such advancements will become more profitable.

Scoring off the court: Steph Curry launches new tech startup

<http://www.hlntv.com/shows/the-daily-share/articles/2016/03/04/stephen-curry-launches-new-tech-startup-slyce>

Stephen Curry's new startup, Slyce, promises to make social media interaction easier for fellow athletes. I am not hinting that this will be a disrupter, however, it is pretty cool.

IBM buys UK's Optevia to ramp up in public-sector, cloud-based CRM services

<http://techcrunch.com/2016/03/18/ibm-buys-uks-optevia-to-ramp-up-in-public-sector-cloud-based-crm-services/>

IBM has made an acquisition to help grow its business in cloud services for government and other public sector organizations — cloud services being of the areas that IBM hopes will offset declines in its legacy business. Cloud computing is becoming increasingly more essential to everyday life. With IBM being on of the leading 20 tech companies, it will be interesting to see what comes of this acquisition. And more so, what subsequent advancements will mean for the larger industry.

-Earnings Trends (Up/down) within your sector for the past 5 years

-Stock Pricing Trends (Up/down) within your sector for the past 5 years

Highlight most important products or services

The HERO line of capture devices, which include HERO2, HERO3 camera, the HERO3+ camera, HERO4, and soon the HERO5 and KARMA Drone.

Headlines, Statistics, and Trends

There are undoubtedly many negative articles regarding GoPro at the moment. I would be remiss to ignore them. Here are the top 5:

GoPro Inc. Gets Schooled by TomTom's Bandit: Now What?

http://www.fool.com/investing/general/2016/03/17/gopro-inc-gets-schooled-by-tomtoms-bandit-now-what.aspx?source=yahoo-2&utm_campaign=article&utm_medium=feed&utm_source=yahoo-2

Summary: Navigation device maker TomTom also joined that list last year with its first action camera, the Bandit. At \$399, the device is the same price as GoPro's popular Hero 4 Silver, but **unlike the Silver, the Bandit is equipped with a GPS and built-in sensors** that can detect "moments" of high acceleration, deceleration, rotation, vertical speed, G-force, and even heart rate data from an optional chest strap.

Will Virtual Reality Be the Next Nail in GoPro's Coffin?

http://www.fool.com/investing/general/2016/03/19/will-virtual-reality-be-the-next-nail-in-gopros-co.aspx?source=yahoo-2&utm_campaign=article&utm_medium=feed&utm_source=yahoo-2

Summary:

GoPro's target audience is the same group of young males who also happen to be diehard gamers. The PS4 crowd will gravitate to PSVR. **The Xbox One crowd will be won over by Oculus Rift**, which actually comes with an Xbox One controller.

Forget GoPro: Here's a Better Way to Invest in Drone Technology

http://www.thestreet.com/story/13485525/1/forget-gopro-here-s-a-better-way-to-invest-in-drone-technology.html?puc=yahoo&cm_ven=YAHOO

Summary:

Companies such as **Amazon**, **Alibaba**, and **Alphabet** (Google's parent) are **at the forefront of campaigning for commercial drone application**. They're already testing drone package delivery and will be ready to begin these programs as soon as the FAA bestows its blessing. Therefore do not hold your breath for GoPro's KARMA drone, that will be released later this year.

3 Stocks Wall Street Hates

http://www.fool.com/investing/general/2016/03/20/3-stocks-wall-street-hates-2.aspx?source=yahoo-2&utm_campaign=article&utm_medium=feed&utm_source=yahoo-2

Summary:

One stock short-sellers have their eyes on is action-camera maker GoPro, as more than **21 million shares of the company's stock have been sold short**. That represents roughly 28% of the company's publicly traded float, which is a sizable bet indicating many Wall Street pros are predicting more pain ahead.

Levi & Korsinsky, LLP Notifies Shareholders of GoPro, Inc. of Class Action Lawsuit and a Lead Plaintiff Deadline of March 14, 2016 - GPRO

<http://finance.yahoo.com/news/upcoming-deadline-levi-korsinsky-llp-190000009.html>

Summary: **You are hereby notified** that a securities class action **lawsuit** has been commenced in the USDC for the Northern District of California.

The above being said, previous data supports that companies in such conditions are in a great place to turn around. Being that the stock has taken a significant losses, if the price were to raise, the potential to make a large profit would be high.

Positive Articles

GO PRO DRONE WITH CAMERA - BEST DRONE FOR GOPRO

<http://www.bestquadcoptersreviews.com/go-pro-drone-with-camera-best-drone-for-gopro/>

Summary:

Selecting the Best **Go Pro Drone** is crucial for aerial photography. You can find-out the Best Drone For GoPro after reading this article. *Drone With Camera* is defined as Unmanned Aerial Vehicle and a GoPro Camera mounted to it. -> Such pairing of Go Pro's and drones are going to seriously increase revenue.

GoPro Developing Line of Consumer Drones

<http://www.wsj.com/articles/gopro-developing-line-of-consumer-drones-1417020883>

Summary:

GoPro Inc. is developing its own line of consumer drones to expand from its core business of making wearable video cameras popular with surfers and other sports enthusiasts, according to people familiar with its plans.

How the FAA's Drone Policy Will Affect the Rest of The World

http://www.slate.com/blogs/future_tense/2014/10/09/how_the_faa_s_drone_policy_will_affect_the_rest_of_the_world.html

Summary:

The Obama administration has tasked the FAA with **drafting national guidelines** for personal and for-profit use. This shows that steps are being taken to regulate drone use.

GoPro Hero 5 Release Date, Features, Price and Rumors -

<http://www.amongtech.com/gopro-hero-5-release-date-features-price-and-rumors/>

Summary:

As the GoPro Hero 4 becomes **the first action camera to be able to film in 4K** the guys over at GoPro are already working hard on the new GoPro Hero 5.

GoPro Hero 5 release, rumors: release delayed indefinitely for 2016, developers to work on making device more powerful

<http://www.vinereport.com/article/gopro.hero.5.release.rumors.release.delayed.indefinitely.for.2016.developers.to.work.on.making.device.more.powerful/1455.htm>

Summary:

Previously announced for an October 5 release, the release of the GoPro Hero 5 is now set for an undefined time in 2016, according to [Venture Capital Post](#). Fans and enthusiasts alike may be disappointed and disheartened by this news, but do take note that the reason GoPro delayed the release is supposedly so that it can work more on improving the camera power of the device and making it the "most powerful videographic equipment" in the world yet!

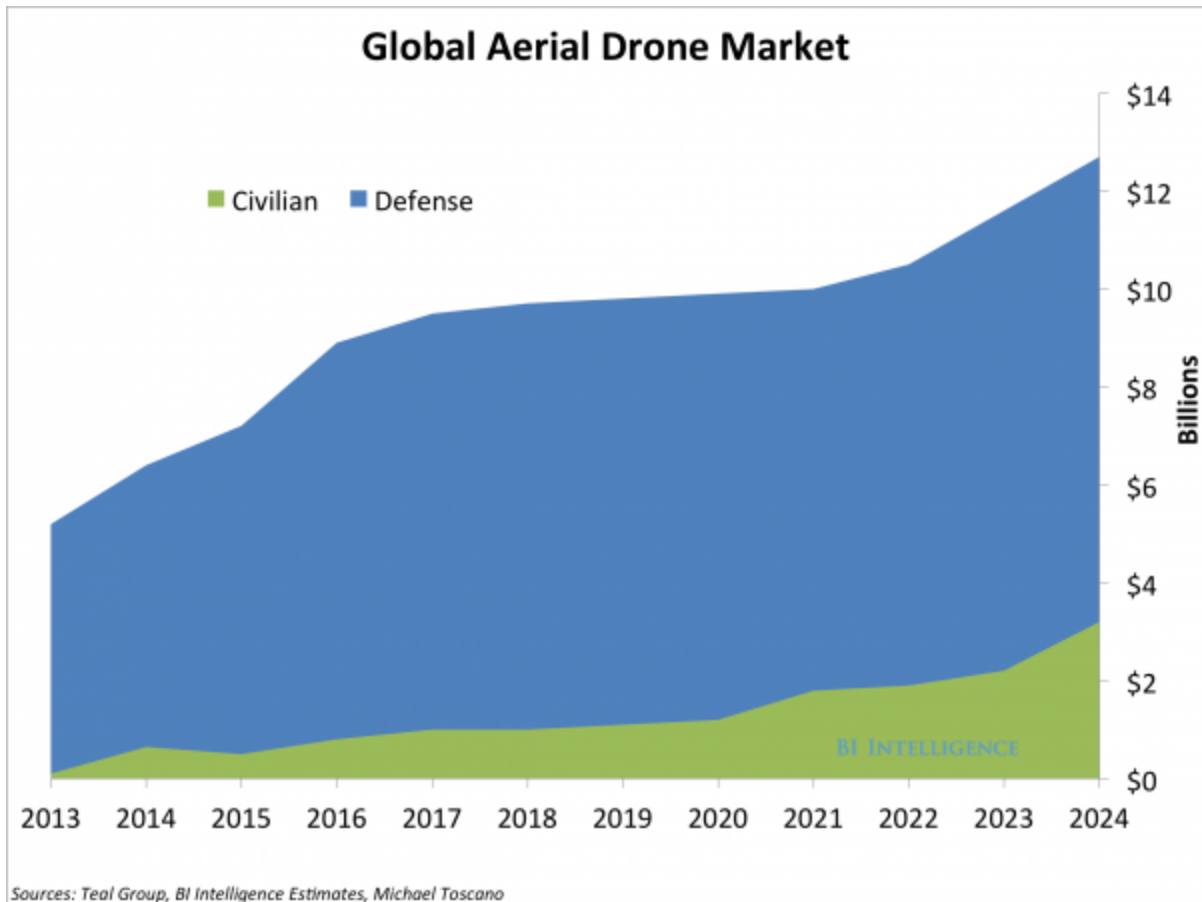
J.P. Morgan Expects A 140% Return From GoPro In 2016

<http://seekingalpha.com/article/3794326-j-p-morgan-expects-140-percent-return-gopro-2016>

Summary:

J.P. Morgan published a research report projecting strong fourth quarter sales for GoPro, and reiterating a price target of \$45 for the stock. The report noted that several Best Buy stores had sold out of the Hero camera series, and also noted that the company's products were hot on Google's list of searches. A \$45 target implies a 140% return for GPRO. This target is feasible if GoPro can impress consumers with the unveiling of its drone at the CES Las Vegas show.

Drone Market Size:



Growth Rate of Drone Market: 109%

<http://www.therobotreport.com/news/commercial-drones-market-projected-to-grow-at-109-cagr>

Top Drone Companies:

1. The Boeing Company (NYSE:BA)

Boeing has had a hand in the drone market for a number of years, mostly developing for the U.S. military. They have more recently been testing the

hydrogen-powered Phantom Eye drone, which Boeing says can stay at 65,000 feet for up to four days without refueling.

The company, led by W. James McNerney, Jr., had revenues of \$81.7 billion in 2012 and looks set to smash through that when 2013 results are announced later this year.

2. General Atomics

The San-Diego based company is credited with building the Predator drone, the much-feared aircraft that saw action way back during the Balkans war, where the Americans lost two. Since then it's been deployed in Afghanistan, Pakistan, Iraq, Yemen, Libya, Somalia, Iran and the Philippines. Last year, the company signed a deal to supply \$197 million worth of drones to the United Arab Emirates. In 2012, the company brought in more than \$652 million in revenues.

3. Lockheed Martin Corporation (NYSE:LMT)

Like Boeing, Lockheed is testing a drone -- the Stalker -- that can stay in the air for days at a time. In 2012, the company brought in revenues of \$47.2 billion.

4. Northrop Grumman (NYSE:NOC)

Founded only in 1994, Northrop has quickly risen to become one of the top suppliers of military hardware in the world. In 2012, the company sold \$1.2 billion

worth of drones to South Korea, but revenue has dropped to \$25.1 billion in 2012 from \$34 billion in 2011.

5. AeroVironment, Inc. (NASDAQ:AVAV)

AeroVironment is the company responsible for the “Hummingbird drone” ordered by the Pentagon. But the incredibly accurate little drone is capable of far more than just looking good. It has a tiny camera that can follow your every move. According to CEO Timothy Conver, revenue is expected to drop to \$230 million in the upcoming fiscal year.

6. Prox Dynamics AS

The Norway-based company is really only famous for one product, but what a product it has become. They developed the Black Hornet Nano, a tiny hand-held helicopter that can help soldiers survey enemy areas quickly. It can fly at its top speed for up to 30 minutes at a time and cost the British Army \$31 million to equip its various regiments with the drone.

7. Denel Dynamics

South Africa isn’t well known for its drones, but government-owned Denel has seen sales of its drones increase by 20 percent in 2013 because of the increased demand, according to the company, in the Middle East, East Asia and Africa.

8. SAIC

The company brought in \$2.87 billion in revenue in 2012, up 3 percent from last year. Their specialty is building underwater drones for the Pentagon to defend against submarines.

9. Israel Aerospace Industries

IAI was pioneering drone use as far back as the 1970s, but the recent explosion in demand is making the company a real force in Israel and abroad. Revenues in 2011 were \$3.44 billion.

10. Textron Inc. (NYSE:TXT)

Appetite for military drones has pushed the company's revenues toward nearly \$13 billion. Their drones have proven so successful that the company has committed to building unmanned underwater vehicles.

11. General Dynamics Corporation (NYSE:GD)

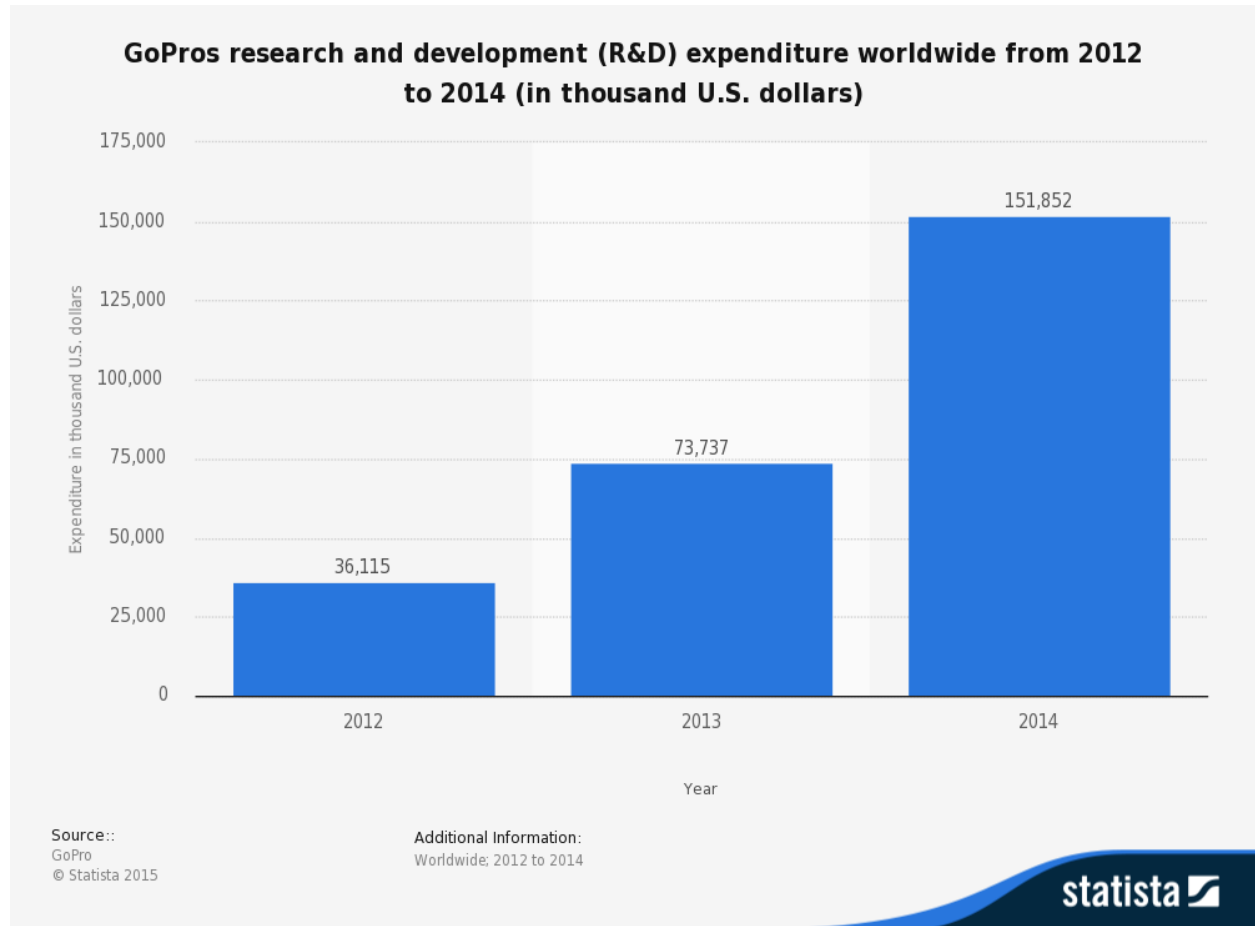
The company reported a \$2 billion loss in January 2013, citing defense cuts. The company also happens to be one of the major donors to the Congressional Unmanned Systems Caucus, known as the drone caucus.

12. DJI

The DJI Phantom is the drone of choice for filmmakers and is reported to be the most complete commercial drone on the market. The company has started pouring much of its resources into the U.S. market, betting that the FAA will relax rules in 2015.

Estimated GOPRO KARMA Drone launch: October 2016

GOPRO R&D Budget:



[Muhkerji Model](#)

[Evaluation Chart](#)

Final Recommendation

GoPro is a focused company. Since its inception the CEO Nicholas Woodman, has never strayed away from the idea that people like doing epic things, and those epic things should be recorded. The company has come a long way since its IPO and first GoPro camera. Undoubtedly the company is currently in a rough period. With its stock price dropping from \$64.74 (8/10/2015) to a mere \$12.88 (3/20/2016). This is due to the nature of the fast moving tech - industry. Virtual reality, drones, and wearables have been talk of the times. I consider this a transition period for GoPro. Clearly the company is diversifying its base to attract more of its niche market of individuals who have around \$500-\$1000 of disposable income.

I recommend GoPro as a solid long term investment because the future products that it is preparing to launch will propel the company back into relevance and profitability. Such products include the GoPro 5 camera, which the company says will be the "most powerful videographic equipment."

Furthermore, the launching of the KARMA drone will give the company new opportunities and renewed hope. Drones are the talk of the tech world. There are so many applications for the tech world including; deliver, surveillance, search and rescue, and recreation. Clearly GoPro will target the sub-sector of recreational drone users, however it will be interesting to see if the company will target other opportunities within the drone world.

Unfortunately my Muhkerji model is not responding the correct way. I now realize that everything in the model is related, so my error on one part has propagated throughout the model and corrupted the final recommendation.

Short term I can foresee GoPro's stock continuing to drop. Longterm, the industry indications that a company with an established user base, combined with an innovative product that is timed correctly, could disrupt the market and make large profits. GoPro is poised to be that company.