

GoPro, Inc. (GPRO US)

Neutral

Price: \$6.51
20 Sep 2018

Hero 7 Launch Goes HyperSmoothly: Customer-Driven Specs, Data-Driven Pricing

By Paul Coster, CFA^{AC}, Paul J Chung, Mark Strouse, CFA

GoPro launched the Hero 7 Black, Silver and White cameras yesterday. The Hero 7 Black is priced at \$399 and will be available internationally on Sep 27th, and domestically on Sep 30th at all GPRO retail outlets and online. Pre-orders are available now. New features include gimbal-like stabilization “HyperSmooth Video”, SuperPhoto or auto HDR, tone and noise reduction in photos, and Live Streaming capability. **First Take: Positive.** We think the \$100 decrease in price relative to last year’s Hero 6 model coupled with new features should drive higher unit y/y sell through this holiday season, with possible upside to our unit shipment estimates in 4Q18. Execution has improved materially, with a lean channel ahead of the product launch, rebounding gross margins, and lower y/y opex levels.

- **Hero 7 specs similar to Hero 6 though stabilization is the key selling point, in our view.** The technical specs are fairly similar to the Hero 6 model, and the form factor is largely unchanged. The gimbal like hypersmooth stabilization (developed in-house software and hardware) is a significant upgrade, in our view, judging by the side by side preview provided on the website and reviews online. The SuperPhoto feature simplifies the user photo experience by automatically adjusting tone, and noise reduction in dynamic light settings. TimeWarp Video also simplifies the capture process for steady time lapse video. Lastly, Live streaming is gaining momentum, and we think the new feature capitalizes on that trend. Initial reviews from tech websites Mashable, Engadget, Trustedreviews etc are skewing positive owing to the image stabilization feature.

Figure 1: Hero 7 Black



Source: Company data.

Figure 2: Hero 7 Black Specs

Specs	Hero 7 Black	Hero 6 Black	Hero 5 Black	HERO 4 Black
Cost	\$399	\$499	\$399	\$499
Specs	4K 60 fps	4K 60 fps	4K 30 fps	4K 30 fps
Specs	1080p 240 fps	1080p 240 fps	1080p120 fps	1080p120 fps
Picture	12MP	12MP	12MP	12MP
Battery	1220mAh lithium-ion rechargeable	1220mAh lithium-ion rechargeable	1220mAh lithium-ion rechargeable	1160mAh lithium-ion rechargeable
Voice Control	Yes	Yes	Yes	No
Waterproof	10m (33ft)	10m (33ft)	10m (33ft)	10m (33ft)
HDR	Yes	Yes	No	No
GP1 Chip	Yes	Yes	No	No
Touch Screen	Yes	Yes	No	No
Zoom				

Source: Company data.

- **Data-driven Pricing, Customer-Driven Specs.** We think management made the smart move in reducing the price \$100 to drive more unit shipments. The Hero 6 Black was priced too high, in our opinion, which failed to entice many existing users to upgrade, and capture new users (unit shipments in 4Q17 were down ~40% y/y). The CEO mentioned that the Hero 5 product cycle was priced more effectively at \$399 which drove one of the best years for the firm, and the Hero 7 hopes to replicate that success at the similar price point – against the backdrop of lean channel inventory. Margins are expected to be in the 40% range which was similar to the Hero 5 Black line, despite all the incremental features. Early data shows that pre-orders are up relative to Hero 6 launch and Hero 5 launch.

- **One million dollar challenge.** Users can submit Hero 7 captured content, for a chance to win \$1mm dollars. A smart marketing move to entice user adoption and content creation, in our view.
- **We rate GPRO Neutral.**

IT Hardware, Alternative Energy

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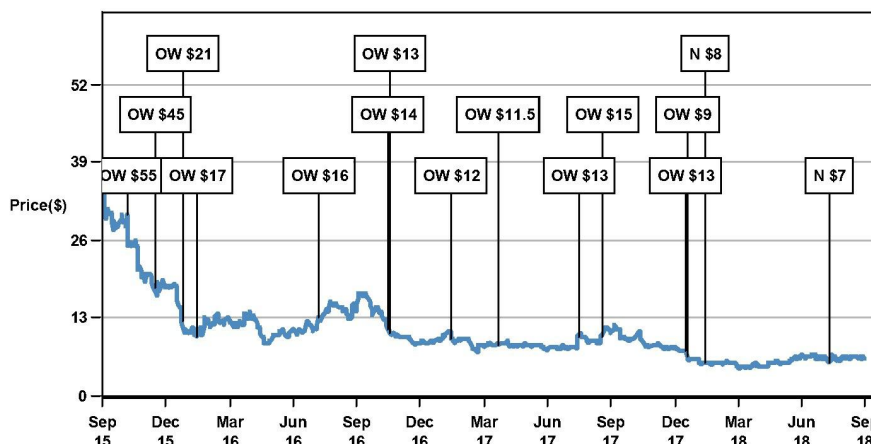
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Date	Rating	Share Price (\$)	Price Target (\$)
28-Oct-15	OW	30.21	55.00
07-Dec-15	OW	18.00	45.00
14-Jan-16	OW	12.48	21.00
04-Feb-16	OW	9.78	17.00
28-Jul-16	OW	13.02	16.00
04-Nov-16	OW	11.16	14.00
08-Nov-16	OW	10.41	13.00
03-Feb-17	OW	9.58	12.00
10-Apr-17	OW	8.55	11.50
04-Aug-17	OW	9.85	13.00
07-Sep-17	OW	10.00	15.00
05-Jan-18	OW	7.52	13.00
08-Jan-18	OW	6.56	9.00
02-Feb-18	N	5.55	8.00
31-Jul-18	N	5.69	7.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 21, 2014.

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