

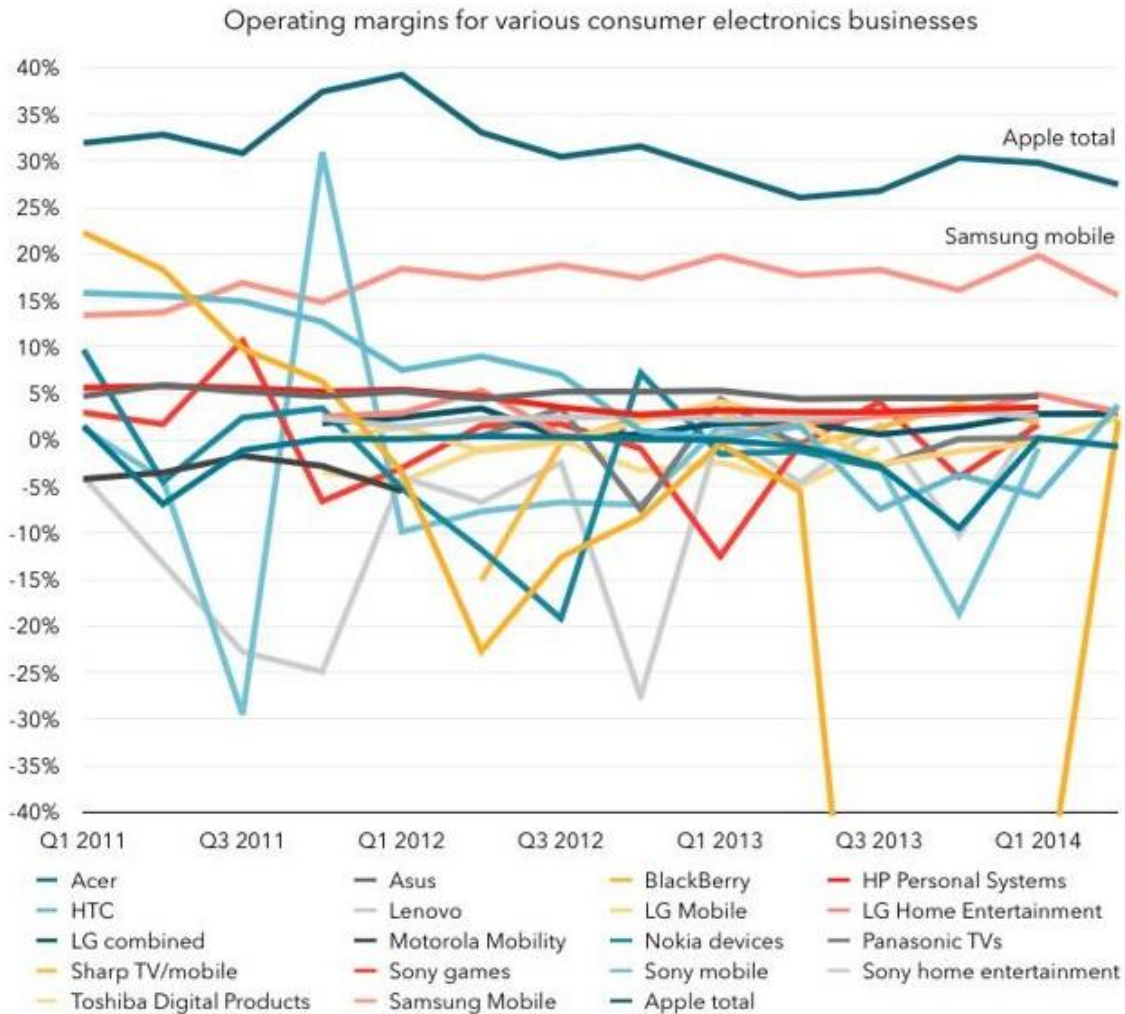
GoPro Price Target \$30 Within 12 Months. Citron Debunks the Hardware plus Media Story with Spot-on Comps

Over the past month Citron has read over 100 articles and analyst comments about GoPro (NASDAQ:GPRO), both positive and negative. To date, not a single commentator or analyst has laid out the truth regarding this company's promotional "we're a media company" story.

GoPro is a tech hardware company. Yet it has spun a story, which is a very convenient fiction, for Wall Street to parrot: that it can become a "media company". Why? Because users are uploading some of their videos to YouTube? Citron will now decisively document the gap between the most optimistic conceivable valuation that this company can ever command, and the current stock price.

At yesterday's close of \$84.32 per share, the company sports approximately a \$10 billion market cap. Let's evaluate this in light of reasonable comps on both their hardware and their dream of a media business, and see how it stacks up.

Clearly, GoPro manufactures and markets a leading electronic video camera which is all the rage. They turned in a big quarter and nobody begrudges them the success of achieving a big score in the consumer electronics marketplace. But long term success in the consumer electronic industry is highly elusive to maintain, as evidenced by this chart (by a Seeking Alpha writer). The reality is that, analyzed historically, nearly all tech hardware device companies have a brutally difficult time maintaining consistently high margins. The following graph illustrates the point decisively:



For this reason, hardware and gadget gear companies do not become Wall Street Darlings... for long.

Don't Listen to Citron -- Listen to Apple.

The clearest comparison to GoPro is Beats Headphones.

Beats had all these things going for it :

- Huge Brand Recognition
- High Margin
- A Compelling "Cool Factor"
- A Media Element to its Valuation Story
- Strong and Relevant Management (Jimmy Iovine)

And on a takeout, **Apple bought Beats for 2x revenue** (and that is an acquisition price by a strategic partner).

Here's how Morgan Stanley assessed the acquisition:

UBS (May 28, 2014): *“Beats had \$1.1bn of revenue in 2013 and we estimate close to \$1.5bn this year. A price of 2x sales seems reasonable to us given apparently high margins.”*

Morgan Stanley (May 29, 2014): *“At a \$1.4B 2014 revenue run-rate (up from \$1.1B in 2013), the \$3B acquisition represents 2.1x EV/Sales, lower than Apple’s current valuation of 2.3x.”*

At the time of the acquisition, much of the media opined that 2x sales was **high** for a product in a commoditized industry. Citron further observes that Beats has a larger total addressable market and a stronger consumer brand whose products are as much fashion statements as electronic devices. Compare the **counterfeiting** of Beats in China vs the **“knocking off”** of the GoPro in China.

<http://appleinsider.com/articles/14/07/11/beats-sues-chinese-counterfeiters-for-billions-as-apple-sale-nears-completion>

<http://www.supercompressor.com/tech/eyeshot-gopro-action-cam-with-a-watch-gives-a-live-view>

The Bottom Line on GoPro's Hardware Business

For the sake of argument, affording GoPro the benefit of all doubts, Citron projects **GoPro's revenues all the way out to 2017**. For this we take the highest analyst's benchmark in the entire analyst universe, and disregarding any and all execution risks, including competition, pricing pressure, market saturation, cannibalization by lower-price points, and inventory risks. With a stroke of the pen, lets confer upon them \$2.1 billion in gross revenue. At a 2x revenue multiple, this gets us a stock price of --\$33.60 per share.

The reason Citron uses price-to-sales is that it is only fair to any rational investor. We refuse to write a story where a commoditized camera maker, projecting growth in its core business below 5% per year in 2016 (2 billion to 2.1 billion), is conferred a 60X earnings multiple for 2016, while their management discloses their own concerns about the limitations of their growth curve in their prospectus.

So where is the other \$50 a share?

Everyone knows the content companies are getting eye-popping multiples. The company does everything possible to shift investors' attention from the hardware business to its media story.

We have never seen analysts on consumer electronics gear company resort to social media "eyeballs" metrics to justify valuations such as "Facebook likes" and "Instagram followers" ... but there is a first for everything, especially if you ignore history. In Wall Street's compulsion to fabricate a story where a story does not exist, you see its fingerprints on GoPro media.

Here are some of the comments from analysts after the recent GPRO quarter

Raymond James Tavis McCourt:

"GoPro's YouTube channel monthly views were 72 million....The company now has over 8 million Facebook followers and 3 million followers on Instagram."

From Wedbush Securities:

"We believe GoPro's high valuation multiple reflects the belief among many investors that the company can successfully exploit its vast media opportunity"

<http://blogs.wsj.com/moneybeat/2014/10/31/analysts-react-to-gopro-results-all-systems-are-gogo-for-gopro/>

GoPro has fueled this myth, stating in their prospectus:

We distribute GoPro programming through what we refer to as the GoPro Network, a collection of GoPro Channels hosted on a variety of platforms, including the following:

- Facebook: over 7.2 million "likes;"
- Instagram: over 2.0 million followers;
- Twitter: over 950,000 followers; ...

<http://www.sec.gov/Archives/edgar/data/1500435/000119312514250045/d552193d424b4.htm>

72 million monthly views and 2.2 million subscribers sounds impressive ... until you put it all in perspective.

Consider the comps. Over the past 6 months, two YouTube content generation companies have been sold:

- **Maker Studios:** In March of 2014 Disney bought Maker Studios for **\$500 million** (incrementally more if certain milestones are reached)

<http://www.reuters.com/article/2014/03/24/us-disney-maker-idUSBREA2N1PV20140324>

Maker Studios claims to have more than **5.5 billion monthly video views** and **380 million subscribers** across its channels

- **Fullscreen:** Two months ago, ATT bought controlling interest in YouTube content creator Fullscreen in a deal that Values Fullscreen between **\$200-\$300 million**.

Fullscreen has **450 million subscribers** and generates over **5 billion views** a month.

<http://www.latimes.com/entertainment/envelope/cotown/la-et-ct-chernin-att-fullscreen-20140922-story.html>

By comparison to Maker and Fullscreen, GoPro's content, which is not specifically monetizable, and which they have no ownership rights to, has little to no value and is far from being a blue sky opportunity adding materially to its \$10 billion valuation. (unless you want a point of view video of my 13 year old riding his skateboard ... that he doesn't even watch himself.)

What is wrong with this chart?

	Content Subscribers	Views Per Month	Recent Valuation
Maker Studios	380 Million	5,500 Million	\$500 million
Fullscreen	450 Million	5,000 Million	\$200 - 300 million
GoPro	2.2 Million	72 Million	Implied value over 5 billion ?

The current revenue potential and penetration of the GoPro Network is shown here on Social Blade ... and it is not pretty:

A TOTAL GRADE	305th SUBSCRIBER RANK	330th VIDEO VIEW RANK	113th SOCIAL BLADE RANK
Views for the Last 30 Days: 33,950,100 (+36.43%)	Subscribers for the Last 30 Days: 100,882 (+12.02%)	\$203.7K - \$1.6M ESTIMATED YEARLY EARNINGS	

<http://socialblade.com/youtube/user/goprocamera>

So you decide: Is GoPro investible as a Social Media Company ?

If GoPro is social media company in any way shape or form, then according to all metrics, investors can't tell the difference between Justin Bieber and Mark Zuckerberg.

Conclusion

It is not a secret to anyone that GoPro's stock move has been fueled by Wall Street's typical small-float, large outstanding, IPO game; thus it has attracted a high short interest. But soon enough, a secondary will inevitably put more stock into the market, and investors will be left to decide the value of GoPro's **real** tomorrow.

When the dust settles this stock will trade down to \$30 and will be **fortunate** to maintain even that price. GoPro will be forced to innovate to compete in a brutally competitive camera market, where household names like Polaroid and Kodak ended up in bankruptcy, iconic names like Nikon and Canon went from mainstream to niche, and FlipCam simply disappeared into thin air.

The truth is that stock valuations are based on a path to sustainable business tomorrow. This company has hit a notable success "today", but explicitly discloses that its tomorrow is foreshadowed by declining growth.