



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

GPRO - NASDAQ - as of	2/7/18	\$5.61
Price Target		N/A
52-Week Range	\$5.04 -	\$11.89
Diluted Shares Outstanding (mm)		145,959
Market Cap. (\$mm)		\$818,830
1-Mo. Average Daily Volume		7,028,292
Institutional Ownership		28.2%
Debt/Total Capital (net)	Q4'17	0%
ROE		-49%
Book Value / Share		\$2.18
Price / Book Value		2.6x
Dividend Yield		0.0%
LTM EBITDA Margin		-10.7%

non GAAP EPS FY 12/31 (adjusted for nonrecurring items)

	Prior		Current	
	2016A	2017E	2017A	2018E
1Q	\$0.57		(\$0.44)	(\$0.24)
2Q	(\$0.52)		(\$0.09)	(\$0.10)
3Q	(\$0.60)		\$0.15	\$0.01
4Q	\$0.29		(\$0.30)	\$0.58
Year	(\$1.44)		(\$0.69)	\$0.25
P/E	-3.9x		-8.1x	51.0x

*Columns may not equal due to rounding

Revenue (\$mil)

	Prior		Current	
	2016A	2017E	2017A	2018E
1Q	\$183.5		\$218.6	\$203.0
2Q	\$220.8		\$296.5	\$278.0
3Q	\$240.5		\$329.8	\$313.5
4Q	\$540.6		\$334.7	\$425.0
Year	\$1,185.5		\$1,179.7	\$1,219.5

GoPro Inc – GoPro manufactures the world's top selling HD action cameras including the HERO 6 Black, HERO 5 Session, Session, Fusion, and content capture device accessories. GoPro also sells the Karma drone. GoPro provides software and services to manage, edit and share content. The company sells Advanced Systems including the Omni and Odyssey VR rigs and HeroCast. The company was founded in 2004 by current CEO, Nick Woodman, and is headquartered in San Mateo, CA.

GoPro Inc.

GPRO - NASDAQ – Neutral - 4

Poor Q4 Results; Turnaround Story Fails to Gain Traction

- Results.** GoPro announced Q4 revenue of \$334.8 million, below the \$340 million preliminary number management provided just a few weeks ago. GoPro incurred significant costs due to price protections, reducing top line revenue following a price cut to the HERO 6, HERO 5, HERO Session, and Karma Drone on December 10th. Price protections hit profitability hard as demand waned. Non GAAP EPS totaled -\$0.30 vs. our -\$0.14 view. GoPro sold 1.36 million cameras vs. 2.28 million last year. GoPro's cash levels increased in the quarter to \$247.4 million, however we expect this to decline as we project another weak full year outlook for FY'18. On a positive note, GoPro Plus, GoPro's subscription service, has 130,000 subscribers.
- Product Developments.** GoPro reduced the price of the HERO6 Black camera by \$100 which is boosting demand, while the HERO5 Black and HERO5 Session camera prices were cut on December 10th also helping boost demand. The Karma drone unit will be dissolved following a higher regulation environment, difficult competition, and a weak margin profile. GoPro's Fusion 5.2k spherical camera had better than expected sales.
- Outlook.** Our revenue estimates decline substantially (again) as product price discounts and discontinued product lines reduce our Q1 and FY view. Management's restructuring should reduce 2018 operating expenses to around \$404 million, in our view. We expect positive 2H'18 results from new product releases and project full year EPS of \$0.11 vs. our prior \$0.25 view.
- Opinion.** We remain of the opinion that GoPro would better execute their business within a larger company. Results have been inconsistent, management turnover has been high, net cash is declining, and our outlook lacks needed upside to recommend shares. We maintain our Neutral-4 rating. We believe a GoPro Android smartphone or other break out product could be a surprise hit, but a move like this remains unlikely to happen, in our view.

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SUITABILITY

Investors should understand our 4 suitability rating (1 = most conservative, 4 = most aggressive) is based on assumptions surrounding GoPro's lack of profitability, significant holiday seasonality, unproven new product lines, as well as large potential swings in cash flow generation, and GoPro's relatively recent history as a public company. Also, uncertainty regarding the relative size, continued growth potential, and global adoption levels of the action camera market are factored into our suitability rating. We believe the company has sufficient cash and access to capital to continue to operate. We believe investors should also consider the level of uncertainty regarding GoPro's future endeavors in the consumer electronics market including consumer drones. GoPro's lifestyle brand recognition and favorable consumer appeal remain strong attributes in the consumer hardware market. We assign our most aggressive 4 rating to shares of GPRO.

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- The potential sale of the company has risks including pricing of a deal or the lack of finding a buyer
- The ability to grow and/or retain the GoPro user base and their current level of engagement
- The lack of further adoption of GoPro products by mainstream users and/or the lack of innovation and new products from GoPro could result in significantly lower growth going forward
- Continual innovation improvements from smartphone manufacturers making the ease of capturing content overwhelmingly convenient which could negatively impact the HD capture device market
- An undiversified product line where a majority of revenue is derived from HD capture devices as well as a large percentage of total sales represented by a small number of merchants
- The potential loss of key GoPro executives including CEO and Chairman, Nick Woodman, who has a significant voting interest in the stock
- Highly competitive market with large, mature, multinational companies that have greater financial resources and a broader product base which may negatively affect GoPro's relative long term competitive position
- Heavy reliance on third party suppliers for product parts and assembly. A disruption within the supply chain could lead to product shortages, poor quality or higher costs.
- Seasonality within GoPro's business performance, with a large portion of sales during the Q4 holiday sales cycle. Poor results during the holiday season would materially affect full year financial results
- GoPro is an aspirational brand and as such has a premium brand image which is highly valuable within the consumer electronics industry. A deterioration of brand image and quality would negatively affect financial results on a go forward basis
- Macroeconomic uncertainties including interest rate, foreign exchange, tax, trade laws, and general global economic health
- Short operating history as a publicly traded company

Additional information is available upon request.

GoPro Inc. Consolidated Statement of Income (in 000's except per share data)

	2013	2014	2015	2016	2017	Q1'18E	Q2'18E	Q3'18E	Q4'18E	2018E
Revenue	\$985,737	\$1,394,205	\$1,619,971	\$1,185,481	\$1,179,741	\$ 185,625	\$ 261,250	\$ 308,725	\$ 325,000	\$1,080,600
Cost of revenue	622,375	765,247	944,304	719,689	787,291	125,125	171,325	187,172	197,050	680,672
Gross Profit	\$363,362	\$ 628,958	\$ 675,667	\$ 465,792	\$ 392,450	\$ 60,500	\$ 89,925	\$ 121,553	\$ 127,950	\$ 399,928
Research and development	70,705	140,109	220,516	295,901	191,182	39,263	41,331	43,396	40,575	164,565
Sales and Marketing	151,912	183,807	255,045	342,651	219,036	42,906	40,613	42,209	52,875	178,603
General and administrative	30,049	45,475	59,308	70,247	66,288	14,134	14,788	16,567	15,500	60,989
Non-GAAP Total Operating Expenses	\$252,666	\$ 369,391	\$ 534,869	\$ 708,799	\$ 476,506	\$ 96,303	\$ 96,731	\$ 102,172	\$ 108,950	\$ 404,156
Non-GAAP Income from Operations	\$110,696	\$ 259,567	\$ 140,798	\$ (243,007)	\$ (84,056)	\$ (35,803)	\$ (6,806)	\$ 19,381	\$ 19,000	\$ (4,229)
Interest and Other Income	(7,374)	(6,060)	(2,163)	(2,205)	(13,045)	(4,200)	(4,200)	(4,200)	(4,200)	(16,800)
Non-GAAP Income Before Provision for Income Taxes	\$103,322	\$ 253,507	\$ 138,635	\$ (245,212)	\$ (97,101)	\$ (40,003)	\$ (11,006)	\$ 15,181	\$ 14,800	\$ (21,029)
Provision for income taxes	30,751	52,887	16,454	43,829	6,486	(8,565)	(3,961)	65	(1,050)	(13,512)
SBC tax benefit	(3,745)	(11,707)	(11,109)	87,794	7,314	8,000	4,000	500	11,000	23,500
Non-GAAP Net Income	\$ 68,826	\$ 188,913	\$ 111,072	\$ (201,247)	\$ (96,273)	\$ (23,438)	\$ (3,045)	\$ 15,616	\$ 26,850	\$ 15,983
Diluted Shares Outstanding	138,364	143,180	144,624	139,425	139,090	138,000	139,000	140,000	141,000	139,500
Non-GAAP EPS	\$ 0.50	\$ 1.32	\$ 0.75	\$ (1.44)	\$ (0.69)	\$ (0.17)	\$ (0.02)	\$ 0.11	\$ 0.19	\$ 0.11
Y/Y Growth Rate										
Total Revenue	87%	41%	16%	-27%	0%	-15%	-12%	-6%	-3%	-8%
Cost of Revenue	109%	23%	23%	-24%	9%	-16%	-9%	-5%	-22%	-14%
Marketing and sales	37%	21%	39%	34%	-36%	-28%	-25%	-3%	-14%	-18%
R&D	104%	98%	57%	34%	-35%	-27%	-13%	-8%	-5%	-14%
General & administrative	51%	51%	30%	18%	-6%	-19%	0%	-5%	-8%	-8%
Operating income	76%	134%	-46%	NM	NM	-41%	NM	-19%	-150%	-95%
Net income	66%	174%	-41%	NM	NM	-63%	-76%	-26%	-165%	-117%
Diluted EPS	-11%	165%	-43%	NM	NM	-62%	-77%	-26%	-163%	-116%
Diluted share count	86%	3%	1%	-4%	0%	-3%	2%	0%	3%	0%
Percentage of Revenue										
Cost of Revenue	63%	55%	58%	61%	67%	67%	66%	61%	61%	63%
Gross Margin	37%	45%	42%	39%	33%	33%	34%	39%	39%	37%
Total costs and expenses	26%	26%	33%	60%	40%	52%	37%	33%	34%	37%
Operating income	11%	19%	9%	-20%	-7%	-19%	-3%	6%	6%	0%
Non-GAAP Net Income	7%	14%	7%	-17%	-8%	-13%	-1%	5%	8%	1%

Source: Company data & Hilliard Lyons estimates.

GoPro Inc. Consolidated Balance Sheets (in 000's except per share data)

	2012	2013	2014	2015	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017
Assets										
Cash and cash equivalents	\$ 36,485	\$ 101,410	\$ 319,929	\$ 279,672	\$ 192,114	\$ 74,877	\$ 149,755	\$ 164,616	\$ 202,504	\$ 202,504
Marketable securities	-	-	102,327	194,386	25,839	-	-	31,946	44,886	44,886
Accounts receivable, net	80,197	122,669	183,992	145,692	164,553	55,293	95,872	100,026	112,935	112,935
Inventory	60,412	111,994	153,026	188,232	167,192	207,735	126,708	177,190	150,551	150,551
Prepaid expenses and other	21,724	21,967	63,769	25,261	38,115	46,241	29,515	36,471	62,811	62,811
Total current assets	198,818	358,040	823,043	833,243	587,813	384,146	401,850	510,249	573,687	573,687
Property and equipment, net	22,440	32,111	41,556	70,050	76,509	73,118	71,833	74,196	68,587	68,587
Goodwill and intangible assets, net	8,449	17,365	17,032	88,122	179,989	177,601	175,460	173,319	170,958	170,958
Other assets	16,958	32,155	36,060	111,561	78,329	79,831	72,828	67,665	37,014	37,014
Total assets	246,665	439,671	917,691	1,102,976	922,640	714,696	721,971	825,429	850,246	850,246
Liabilities and stockholders' equity										
Accounts payable	53,746	126,423	126,240	89,989	205,028	129,733	76,208	143,054	138,257	138,257
Accrued liabilities	48,714	86,391	115,775	184,910	211,323	170,297	151,317	149,395	213,030	213,030
Deferred revenue	7,380	7,781	14,022	12,742	14,388	13,884	15,036	16,301	19,244	19,244
Income taxes payable	3,578	19,702	2,732	7,536	-	-	-	-	-	-
Current portion of long-term debt	15,782	60,297	-	-	-	-	-	-	-	-
Total current liabilities	129,200	300,594	258,769	295,177	430,739	313,914	242,561	308,750	370,531	370,531
Long-term debt	113,613	53,315	-	-	-	-	125,817	127,861	130,048	130,049
Other liabilities	6,455	13,930	17,718	35,766	44,957	35,331	40,771	48,548	50,962	50,962
Total liabilities	249,268	367,839	276,487	330,943	475,696	349,245	409,149	485,159	551,541	551,542
Stockholders' equity:										
Redeemable convertible preferred stock	77,138	77,198	-	-	-	-	-	-	-	-
Common stock and additional paid in capital	479	14,518	533,000	663,311	757,226	771,475	827,382	840,169	854,452	854,451
Treasury stock, at cost	-	(19,884)	-	(35,613)	(35,613)	(35,613)	(113,613)	(113,613)	(113,613)	(113,613)
Retained earnings	(80,220)	(5,366)	108,204	144,335	(274,668)	(370,411)	(400,947)	(386,286)	(442,134)	(442,134)
Total stockholders' equity	(79,741)	(5,366)	641,204	772,033	446,945	365,451	312,822	340,270	298,705	298,704
Total liabilities and stockholders' equity	246,665	439,671	917,691	1,102,976	922,640	714,696	721,971	825,429	850,246	850,246

Source: Company data

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

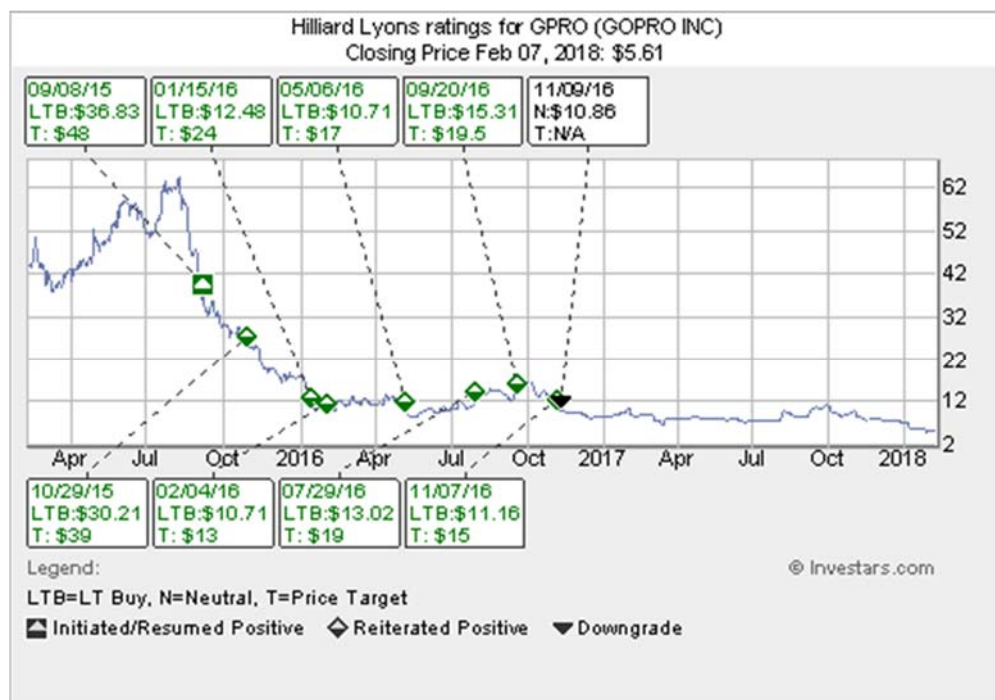
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

Other Disclosures

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