



### COMPANY UPDATE / ESTIMATE CHANGE

#### Key Metrics

GPRO - NASDAQ - as of	8/4/17	\$9.85
Price Target		N/A
52-Week Range	\$7.15 -	\$17.68
Diluted Shares Outstanding (mm)		144,709
Market Cap. (\$mm)		\$1,425,384
1-Mo. Average Daily Volume		3,062,881
Institutional Ownership		26.1%
Debt/Total Capital (net)	Q2'17	0%
ROE		-79%
Book Value / Share		\$2.30
Price / Book Value		4.3x
Dividend Yield		0.0%
LTM EBITDA Margin		-19.7%

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

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.57		(\$0.44) A	(\$0.29)	(\$0.36)
2Q	(\$0.52)		(\$0.09) A	\$0.23	(\$0.15)
3Q	(\$0.60)	(\$0.08)	(\$0.04)	(\$0.05)	(\$0.01)
4Q	\$0.29	\$0.78	\$0.73	\$0.78	\$0.84
Year	(\$1.44)	\$0.07	\$0.15	\$0.21	\$0.31
P/E	-6.8x		65.7x		31.8x

\*Columns may not equal due to rounding

#### Revenue (\$mil)

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$183.5		\$218.6 A	\$240.0	\$224.7
2Q	\$220.8		\$296.5 A	\$276.2	\$275.5
3Q	\$240.5	\$285.0	\$301.3	\$300.0	\$313.5
4Q	\$540.6	\$670.5	\$550.0	\$704.0	\$649.0
Year	\$1,185.5	\$1,436.5	\$1,366.5	\$1,520.2	\$1,462.7

GoPro Inc – GoPro manufactures the world's top selling HD action cameras including the HERO 5 Black, HERO 5 Session, Session, and content capture device accessories. GoPro also recently began selling Karma within the consumer drone market. 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

### Strong Q2 Results; Better Than Expected Guidance

- Results.** GoPro reported Q2 revenue of \$296.5 million, significantly above our \$262.4 million view. Camera unit sales totaled 1,061,000, which was well above our 820,000 view. The average selling price of \$279.50 was below our \$320 estimate, attributable to higher sales of the lower cost HERO Session and less accessory sales. Asia Pacific segment revenue increased 67% y/y due to a new localized operating strategy. Gross margin of 36.2%, was above our 35% view. Operating expense of \$116.5 million was again substantially reduced, well below our \$124.5 million view. Non GAAP EPS was -\$0.09 compared to our -\$0.19 estimate. Net cash increased sequentially to \$150 million, up from \$75 million due to a debt raise and is expected to continue to increase throughout the holiday season on improving results.
- Other Highlights.** GoPro recently launched QuickStories, a new app feature that pulls content from a HERO5 camera and automatically edits content, making it ready to share on social media. We believe this feature is key, as editing remains a significant pain point for the average user. We expect this software to boost growth especially from social media users. GoPro HERO5 Black cameras remained the top selling camera in the U.S; while Karma has already reached the #2 top selling drone brand in the U.S. Management noted they are on track to launch the Fusion 5.2k spherical camera and the HERO6 lineup in the current quarter.
- Outlook.** Management provided a Q3 revenue outlook with a midpoint of \$300 million, above our prior view of \$285 million on an earlier than expected product launch cycle. Expenses were also guided below our prior estimate, which we find encouraging. EPS was guided to a midpoint of -\$0.06 vs. our prior -\$0.08 forecast. On a non GAAP EPS basis, we increase our Q3 estimated EPS to -\$0.04 from -\$0.08. Our FY'17 EPS estimate improves to \$0.15 from \$0.07. Our FY'18 EPS view increases to \$0.31 from \$0.21 largely a result of lower operating expenses.
- Opinion.** While we are encouraged by GoPro's recent results and the QuickStories launch, we maintain our Neutral rating as we gauge management's ability to report consistent results and wait for potential product release details for the upcoming holiday season. GoPro has taken several steps to fulfill a turnaround strategy and announced steps to limit Q4 variability, all of which is incrementally positive in our view.

**Note Important Disclosures on Pages 5-6**  
**Note Analyst Certification on Page 5**

**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, and unproven new product lines that we expect to drive future revenue growth, 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, nonetheless we assign our most aggressive 4 rating to shares of GPRO.

**RISKS & CONSIDERATIONS**

Risks to our valuation include but are not limited to:

- 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. Semiconductor company Ambarella, is GoPro's most notable supplier and a sole source for video compression and image processing
- 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
- Government regulations within new end markets, specifically on unmanned aerial vehicles (drones) by the FAA
- 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	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17E	Q3'17E	Q4'17E	2017E	2018E
<b>Revenue</b>	<b>\$ 985,737</b>	<b>\$ 1,394,205</b>	<b>\$ 1,619,971</b>	<b>\$ 183,536</b>	<b>\$ 220,755</b>	<b>\$ 240,569</b>	<b>\$ 540,621</b>	<b>\$ 1,185,481</b>	<b>\$ 218,614</b>	<b>\$ 296,526</b>	<b>\$ 301,350</b>	<b>\$ 550,000</b>	<b>\$ 1,366,490</b>	<b>\$ 1,462,750</b>
Cost of revenue	622,375	765,247	944,304	114,879	127,119	142,852	326,972	719,689	148,318	189,259	191,164	333,750	862,516	913,800
<b>Gross Profit</b>	<b>\$ 363,362</b>	<b>\$ 628,958</b>	<b>\$ 675,667</b>	<b>\$ 68,657</b>	<b>\$ 93,636</b>	<b>\$ 97,717</b>	<b>\$ 213,649</b>	<b>\$ 465,792</b>	<b>\$ 70,296</b>	<b>\$ 107,267</b>	<b>\$ 110,186</b>	<b>\$ 216,250</b>	<b>\$ 503,974</b>	<b>\$ 548,950</b>
Research and development	70,705	140,109	220,516	67,029	83,745	79,752	65,375	295,901	53,669	47,459	47,550	35,750	184,428	189,923
Sales and Marketing	151,912	183,807	255,045	73,545	81,209	87,751	100,146	342,651	59,923	54,322	53,190	62,340	229,775	224,414
General and administrative	30,049	45,475	59,308	16,881	17,980	18,764	16,622	70,247	17,384	14,736	14,181	7,650	53,951	38,496
<b>Non-GAAP Total Operating Expenses</b>	<b>\$ 252,666</b>	<b>\$ 369,391</b>	<b>\$ 534,869</b>	<b>\$ 157,455</b>	<b>\$ 182,934</b>	<b>\$ 186,267</b>	<b>\$ 182,143</b>	<b>\$ 708,799</b>	<b>\$ 130,976</b>	<b>\$ 116,517</b>	<b>\$ 114,921</b>	<b>\$ 105,740</b>	<b>\$ 468,154</b>	<b>\$ 452,832</b>
<b>Non-GAAP Income from Operations</b>	<b>\$ 110,696</b>	<b>\$ 259,567</b>	<b>\$ 140,798</b>	<b>\$ (88,798)</b>	<b>\$ (89,298)</b>	<b>\$ (88,550)</b>	<b>\$ 31,506</b>	<b>\$ (243,007)</b>	<b>\$ (60,680)</b>	<b>\$ (9,250)</b>	<b>\$ (4,735)</b>	<b>\$ 110,510</b>	<b>\$ 35,821</b>	<b>\$ 96,118</b>
Interest and Other Income	(7,374)	(6,060)	(2,163)	(307)	660	(808)	(1,750)	(2,205)	(653)	(3,652)	(2,500)	(2,000)	(8,805)	(8,800)
<b>Non-GAAP Income Before Provision for Income Taxes</b>	<b>\$ 103,322</b>	<b>\$ 253,507</b>	<b>\$ 138,635</b>	<b>\$ (89,105)</b>	<b>\$ (88,638)</b>	<b>\$ (89,358)</b>	<b>\$ 29,756</b>	<b>\$ (245,212)</b>	<b>\$ (61,333)</b>	<b>\$ (12,902)</b>	<b>\$ (7,235)</b>	<b>\$ 108,510</b>	<b>\$ 27,016</b>	<b>\$ 87,318</b>
Provision for income taxes	30,751	52,887	16,454	(14,283)	(16,950)	(12,329)	87,391	43,829	22,282	1,991	(6,000)	19,025	37,298	40,911
SBC tax benefit	(3,745)	(11,707)	(11,109)	(3,918)	(907)	(7,250)	99,869	87,794	20,439	1,991	(4,000)	11,000	29,430	-
<b>Non-GAAP Net Income</b>	<b>\$ 68,826</b>	<b>\$ 188,913</b>	<b>\$ 111,072</b>	<b>\$ (78,740)</b>	<b>\$ (72,595)</b>	<b>\$ (84,279)</b>	<b>\$ 42,234</b>	<b>\$ (201,247)</b>	<b>\$ (63,176)</b>	<b>\$ (12,902)</b>	<b>\$ (5,235)</b>	<b>\$ 100,485</b>	<b>\$ 19,148</b>	<b>\$ 46,406</b>
Diluted Shares Outstanding	138,364	143,180	144,624	137,543	138,942	140,124	146,261	139,425	142,899	136,288	137,000	138,000	138,547	141,125
<b>Non-GAAP EPS</b>	<b>\$ 0.50</b>	<b>\$ 1.32</b>	<b>\$ 0.75</b>	<b>\$ (0.57)</b>	<b>\$ (0.52)</b>	<b>\$ (0.60)</b>	<b>\$ 0.29</b>	<b>\$ (1.44)</b>	<b>\$ (0.44)</b>	<b>\$ (0.09)</b>	<b>\$ (0.04)</b>	<b>\$ 0.73</b>	<b>\$ 0.15</b>	<b>\$ 0.31</b>
<b>Y/Y Growth Rate</b>														
Total Revenue	87%	41%	16%	-49%	-47%	-40%	24%	-27%	19%	34%	25%	2%	15%	7%
Cost of Revenue	109%	23%	23%	-42%	-43%	-33%	6%	-24%	29%	49%	34%	2%	20%	6%
Marketing and sales	37%	21%	39%	38%	34%	40%	28%	34%	-19%	-33%	-39%	-38%	-33%	-2%
R&D	104%	98%	57%	46%	55%	30%	10%	34%	-20%	-43%	-40%	-45%	-38%	3%
General & administrative	51%	51%	30%	5%	24%	20%	26%	18%	3%	-18%	-24%	-54%	-23%	-29%
Operating income	76%	134%	-46%	-281%	NM	NM	NM	NM	-32%	-90%	NM	251%	NM	168%
Net income	66%	174%	-41%	-321%	NM	NM	NM	NM	-20%	-82%	NM	138%	NM	142%
Diluted EPS	-11%	165%	-43%	-339%	NM	NM	NM	NM	-23%	-82%	NM	152%	NM	103%
Diluted share count	86%	3%	1%	-7%	-5%	-4%	7%	-4%	4%	-2%	-2%	-6%	-1%	2%
<b>Percentage of Revenue</b>														
Cost of Revenue	63%	55%	58%	63%	58%	59%	60%	61%	68%	64%	63%	61%	63%	62%
Gross Margin	37%	45%	42%	37%	42%	41%	40%	39%	32%	36%	37%	39%	37%	38%
Total costs and expenses	26%	26%	33%	86%	83%	77%	34%	60%	60%	39%	38%	19%	34%	31%
Operating income	11%	19%	9%	-48%	-40%	-37%	6%	-20%	-28%	-3%	-2%	20%	3%	7%
Non-GAAP Net Income	7%	14%	7%	-43%	-33%	-35%	8%	-17%	-29%	-4%	-2%	18%	1%	3%

Source: Company data &amp; Hilliard Lyons estimates.

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

	2012	2013	2014	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17
<b>Assets</b>											
Cash and cash equivalents	\$ 36,485	\$ 101,410	\$ 319,929	\$ 279,672	\$ 248,717	\$ 163,512	\$ 131,577	\$ 192,114	\$ 192,114	\$ 74,877	\$ 149,755
Marketable securities	-	-	102,327	194,386	139,951	115,688	93,315	25,839	25,839	-	-
Accounts receivable, net	80,197	122,669	183,992	145,692	46,519	65,016	92,351	164,553	164,553	55,293	95,872
Inventory	60,412	111,994	153,026	188,232	139,736	89,889	145,231	167,192	167,192	207,735	126,708
Prepaid expenses and other	21,724	21,967	63,769	25,261	27,452	38,057	40,566	38,115	38,115	46,241	29,515
<b>Total current assets</b>	<b>198,818</b>	<b>358,040</b>	<b>823,043</b>	<b>833,243</b>	<b>602,375</b>	<b>472,162</b>	<b>503,040</b>	<b>587,813</b>	<b>587,813</b>	<b>384,146</b>	<b>401,850</b>
Property and equipment, net	22,440	32,111	41,556	70,050	67,725	66,525	77,577	76,509	76,509	73,118	71,833
Goodwill and intangible assets, net	8,449	17,365	17,032	88,122	131,364	192,532	183,955	179,989	179,989	177,601	175,460
Other assets	16,958	32,155	36,060	111,561	127,465	133,161	136,713	78,329	78,329	79,831	72,828
<b>Total assets</b>	<b>246,665</b>	<b>439,671</b>	<b>917,691</b>	<b>1,102,976</b>	<b>928,929</b>	<b>864,380</b>	<b>901,285</b>	<b>922,640</b>	<b>922,640</b>	<b>714,696</b>	<b>721,971</b>
<b>Liabilities and stockholders' equity</b>											
Accounts payable	53,746	126,423	126,240	89,989	50,989	63,642	158,767	205,028	205,028	129,733	76,208
Accrued liabilities	48,714	86,391	115,775	184,910	148,309	151,102	183,905	211,323	211,323	170,297	151,317
Deferred revenue	7,380	7,781	14,022	12,742	13,847	11,605	11,499	14,388	14,388	13,884	15,036
Income taxes payable	3,578	19,702	2,732	7,536	-	-	-	-	-	-	-
Current portion of long-term debt	15,782	60,297									
<b>Total current liabilities</b>	<b>129,200</b>	<b>300,594</b>	<b>258,769</b>	<b>295,177</b>	<b>213,145</b>	<b>226,349</b>	<b>354,171</b>	<b>430,739</b>	<b>430,739</b>	<b>313,914</b>	<b>242,561</b>
Long-term debt	113,613	53,315									125,817
Other liabilities	6,455	13,930	17,718	35,766	36,389	40,641	39,496	44,956	44,957	35,331	40,771
<b>Total liabilities</b>	<b>249,268</b>	<b>367,839</b>	<b>276,487</b>	<b>330,943</b>	<b>249,534</b>	<b>266,990</b>	<b>393,667</b>	<b>475,695</b>	<b>475,696</b>	<b>349,245</b>	<b>409,149</b>
<b>Stockholders' equity:</b>											
Redeemable convertible preferred stock	77,138	77,198									
Common stock and additional paid in capital	479	14,518	533,000	663,311	678,132	687,894	702,190	757,226	757,226	771,475	827,382
Treasury stock, at cost		(19,884)	-	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(113,613)
Retained earnings	(80,220)		108,204	144,335	36,876	(54,891)	(158,959)	(274,668)	(274,668)	(370,411)	(400,947)
Total stockholders' equity	(79,741)	(5,366)	641,204	772,033	679,395	597,390	507,618	446,945	446,945	365,451	312,822
<b>Total liabilities and stockholders' equity</b>	<b>246,665</b>	<b>439,671</b>	<b>917,691</b>	<b>1,102,976</b>	<b>928,929</b>	<b>864,380</b>	<b>901,285</b>	<b>922,640</b>	<b>922,640</b>	<b>714,696</b>	<b>721,971</b>

Source: Company data

Other stocks mentioned: Ambarella (AMBA-\$50.90)

### 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

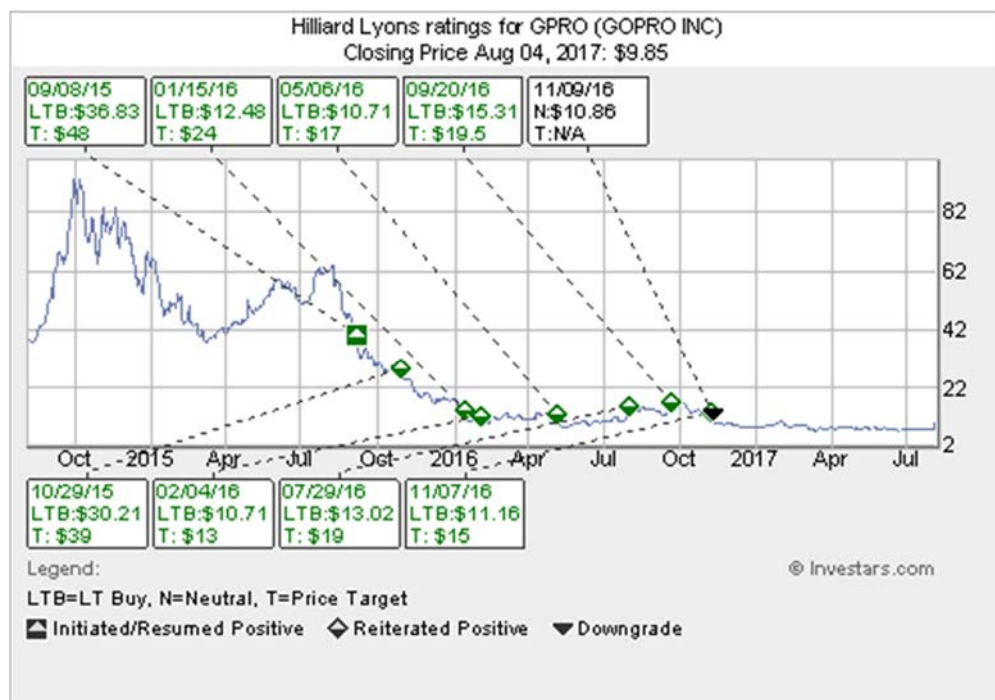
### Investment Ratings

**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.



<b>Rating</b>	<b>Hilliard Lyons Recommended Issues</b>		<b>Investment Banking Provided in Past 12 Mo.</b>	
	<b># of Stocks Covered</b>	<b>% of Stocks Covered</b>	<b>Banking</b>	<b>No Banking</b>
<b>Buy</b>	36	29%	14%	86%
<b>Hold/Neutral</b>	79	63%	5%	95%
<b>Sell</b>	10	8%	0%	100%

*As of 7 July 2017*

### Other Disclosures

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