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COMPANY UPDATE / ESTIMATE CHANGE

GoPro Inc.

GPRO - NASDAQ – Neutral - 4

Key Metrics

GPRO - NASDAQ - as of 3/15/17		$7.35
Price Target		N/A
52-Week Range	$7.14 -	$17.68
Diluted Shares Outstanding (mm)		146,261
Market Cap. ($mm)		$1,075,018
1-Mo. Average Daily Volume		3,815,317
Institutional Ownership		45.1%
Debt/Total Capital (net) Q4'16		0%
ROE		n/a
Book Value / Share		$5.65
Price / Book Value		1.3x
Dividend Yield		0.0%
LTM EBITDA Margin		-

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

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	$0.57	($0.49)	($0.42)	($0.40)	($0.24)
2Q	($0.52)	($0.36)	($0.20)	($0.29)	($0.18)
3Q	($0.60)	($0.19)	$0.01	($0.13)	($0.01)
4Q	$0.29	$0.62	$0.81	$0.64	$0.81
Year	($1.44)	($0.43)	$0.20	($0.18)	$0.38
P/E	-5.1x		36.8x		19.3x

*Columns may not equal due to rounding

Revenue ($mil)

	2016A	Prior 2017A	Current 2017A	Prior 2018E	Current 2018E
1Q	$183.5	$204.0	$207.7	$236.7	$232.0
2Q	$220.8	$242.5	$237.5	$270.2	$249.5
3Q	$240.5	$311.5	$309.0	$342.7	$318.1
4Q	$540.6	$614.5	$629.5	$631.2	$644.1
Year	$1,185.5	$1,372.5	$1,383.7	$1,481.0	$1,443.1

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 Nails High End of Q1 Guidance Range

- **Positive Preannouncement.** GoPro preannounced Q1'17 revenue that will come in at the high end of the expected guidance range of $190 million to $210 million. This would infer revenue slightly ahead of our prior $204 million Q1 revenue estimate. Management expects double-digit revenue growth throughout FY'17 on strong sell through of HERO 5 Black, Session and the Karma drone launch in the U.S. Karma is expected to launch in EMEA in Q2'17 and is currently doing well in the marketplace. Management announced the company is undertaking a restructuring effort which will reduce headcount by 270 people. This represents a decline in headcount of 17% from Q4'16. Management expects FY'17 operating expenses of $495 million which compares favorably to our prior $599 million estimate. This significant reduction in cost is expected to make GoPro profitable on a non GAAP basis in FY'17 vs. our prior expectation of a loss of $0.43. The company also plans to be EBITDA positive and does not plan to draw from its credit facility in FY'17. Management again noted the company plans to launch new hardware and software products in 2017, again trying to ease investor concerns. The company scheduled their full Q1'17 earnings call on April 27th, which will provide further detailed information on the new operating structure.
- **Outlook.** We raise our full year outlook based on a reduction in operating expense and a slight improvement to our top line expectations. Our Q1'17 outlook increases marginally to EPS of -$0.42 on revenue of $208 million vs. our prior view of -$0.49/$204 million. FY'17 operating expenses were guided lower to $495 million from our prior $599 million view. Our FY'17 EPS estimate increases substantially to $0.20 from -$0.43 and our preliminary FY'18 estimate increases to $0.38 from -$0.18. We are however reducing our FY'18 revenue view from $1.48 billion to $1.44 billion as we take a more conservative view of global product growth resulting from the above mentioned restructuring initiative.
- **Opinion.** GoPro is in the process of rightsizing its cost structure (albeit several quarters later than we initially expected following multiple execution issues). The restructuring meaningfully enhances our view of GoPro's trajectory to sustained profitability. However, we prefer to continue to stay on the sidelines at this time until we experience a longer period of solid execution.

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 is 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	2016	Q1'17E	Q2'17E	Q3'17E	Q4'17E	2017E	2018E
Revenue	$985,737	$1,394,205	$1,619,971	$1,185,481	$ 207,775	$ 237,500	$ 309,000	$ 629,500	$1,383,775	$1,443,750
Cost of revenue	622,375	765,247	944,304	719,689	137,113	154,613	196,760	382,945	871,430	888,402
Gross Profit	$363,362	$ 628,958	$ 675,667	$ 465,792	$ 70,662	$ 82,888	$ 112,240	$ 246,555	$ 512,345	$ 555,348
Research and development	70,705	140,109	220,516	295,901	62,766	53,763	51,810	45,203	213,541	221,159
Sales and Marketing	151,912	183,807	255,045	342,651	65,216	58,600	55,450	71,480	250,746	252,810
General and administrative	30,049	45,475	59,308	70,247	12,278	5,750	5,805	7,438	31,270	30,223
Non-GAAP Total Operating Expenses	$252,666	$ 369,391	$ 534,869	$ 708,799	$ 140,259	$ 118,113	$ 113,065	$ 124,120	$ 495,557	$ 504,192
Non-GAAP Income from Operations	$110,696	$ 259,567	$ 140,798	$ (243,007)	$ (69,597)	$ (35,225)	$ (825)	$ 122,435	$ 16,788	$ 51,156
Interest and Other Income	(7,374)	(6,060)	(2,163)	(2,205)	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	(4,000)
Non-GAAP Income Before Provision for Income Taxes	$103,322	$ 253,507	$ 138,635	$ (245,212)	$ (70,597)	$ (36,225)	$ (1,825)	$ 121,435	$ 12,788	$ 47,156
Provision for income taxes	30,751	52,887	16,454	43,829	(13,364)	(8,066)	(3,057)	14,948	(9,539)	(6,370)
SBC tax benefit	(3,745)	(11,707)	(11,109)	87,794	(2,500)	(500)	(200)	11,000	7,800	5,500
Non-GAAP Net Income	$ 68,826	$ 188,913	$ 111,072	$ (201,247)	$ (59,732)	$ (28,659)	$ 1,032	$ 117,487	$ 30,128	$ 59,026
Diluted Shares Outstanding	138,364	143,180	144,624	139,425	142,000	143,000	144,000	145,000	143,500	148,750
Non-GAAP EPS	$ 0.50	$ 1.32	$ 0.75	$ (1.44)	$ (0.42)	$ (0.20)	$ 0.01	$ 0.81	$ 0.20	$ 0.38
Y/Y Growth Rate										
Total Revenue	87%	41%	16%	-27%	13%	8%	28%	16%	17%	4%
Cost of Revenue	109%	23%	23%	-24%	19%	22%	38%	17%	21%	2%
Marketing and sales	37%	21%	39%	34%	-11%	-28%	-37%	-29%	-27%	1%
R&D	104%	98%	57%	34%	-6%	-36%	-35%	-31%	-28%	4%
General & administrative	51%	51%	30%	18%	-27%	-68%	-69%	-55%	-55%	-3%
Operating income	76%	134%	-46%	NM	-22%	-61%	NM	289%	NM	205%
Net income	66%	174%	-41%	NM	-24%	-61%	NM	178%	NM	96%
Diluted EPS	-11%	165%	-43%	NM	-27%	-62%	NM	181%	NM	94%
Diluted share count	86%	3%	1%	-4%	3%	3%	3%	-1%	3%	4%
Percentage of Revenue										
Cost of Revenue	63%	55%	58%	61%	66%	65%	64%	61%	63%	62%
Gross Margin	37%	45%	42%	39%	34%	35%	36%	39%	37%	38%
Total costs and expenses	26%	26%	33%	60%	68%	50%	37%	20%	36%	35%
Operating income	11%	19%	9%	-20%	-33%	-15%	0%	19%	1%	4%
Non-GAAP Net Income	7%	14%	7%	-17%	-29%	-12%	0%	19%	2%	4%

Source: Company data & Hilliard Lyons estimates.

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

	2012	2013	2014	Q1'15	Q2'15	Q3'15	Q4'15	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016
Assets													
Cash and cash equivalents	$ 36,485	$ 101,410	$ 319,929	$ 323,165	$ 338,031	$ 279,969	$ 279,672	$ 279,672	$ 248,717	$ 163,512	$ 131,577	$ 192,114	$ 192,114
Marketable securities	-	-	102,327	168,741	178,953	233,133	194,386	194,386	139,951	115,688	93,315	25,839	25,839
Accounts receivable, net	80,197	122,669	183,992	105,970	118,551	120,666	145,692	145,692	46,519	65,016	92,351	164,553	164,553
Inventory	60,412	111,994	153,026	164,044	219,272	289,521	188,232	188,232	139,736	89,889	145,231	167,192	167,192
Prepaid expenses and other	21,724	21,967	63,769	60,334	80,636	79,976	25,261	25,261	27,452	38,057	40,566	38,115	38,115
Total current assets	198,818	358,040	823,043	822,254	935,443	1,003,265	*833,243*	*833,243*	602,375	472,162	503,040	587,813	587,813
Property and equipment, net	22,440	32,111	41,556	43,890	52,252	67,644	70,050	70,050	67,725	66,525	77,577	76,509	76,509
Goodwill and intangible assets, net	8,449	17,365	17,032	24,874	78,524	89,642	88,122	88,122	131,364	192,532	183,955	179,989	179,989
Other assets	16,958	32,155	36,060	39,616	45,313	48,730	111,561	111,561	127,465	133,161	136,713	78,329	78,329
Total assets	246,665	439,671	917,691	930,634	1,111,532	1,209,281	*1,102,976*	*1,102,976*	928,929	864,380	901,285	922,640	922,640
Liabilities and stockholders' equity													
Accounts payable	53,746	126,423	126,240	91,919	156,450	159,901	89,989	89,989	50,989	63,642	158,767	205,028	205,028
Accrued liabilities	48,714	86,391	115,775	103,350	133,442	166,116	184,910	184,910	148,309	151,102	183,905	211,323	211,323
Deferred revenue	7,380	7,781	14,022	12,327	13,298	13,095	12,742	12,742	13,847	11,605	11,499	14,388	14,388
Income taxes payable	3,578	19,702	2,732	2,940	4,691	6,630	7,536	7,536	-	-	-	-	-
Current portion of long-term debt	15,782	60,297											
Total current liabilities	129,200	300,594	258,769	210,536	307,881	345,742	*295,177*	*295,177*	213,145	226,349	354,171	430,739	430,739
Long-term debt	113,613	53,315											
Other liabilities	6,455	13,930	17,718	18,378	20,678	32,849	35,766	35,766	36,389	40,641	39,496	44,956	44,957
Total liabilities	249,268	367,839	276,487	228,914	328,559	378,591	*330,943*	*330,943*	249,534	266,990	393,667	475,695	475,696
Stockholders' equity:													
Redeemable convertible preferred stock	77,138	77,198											
Common stock and additional paid in capital	479	14,518	533,000	576,764	622,986	651,904	663,311	663,311	678,132	687,894	702,190	757,226	757,226
Treasury stock, at cost		(19,884)	-	-	-	-	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)
Retained earnings	(80,220)		108,204	124,956	159,987	178,786	144,335	144,335	36,876	(54,891)	(158,959)	(274,668)	(274,668)
Total stockholders' equity	(79,741)	(5,366)	641,204	701,720	782,973	830,690	772,033	772,033	679,395	597,390	507,618	446,945	446,945
Total liabilities and stockholders' equity	246,665	439,671	917,691	930,634	1,111,532	1,209,281	*1,102,976*	*1,102,976*	928,929	864,380	901,285	922,640	922,640

Source: Company data

Other stocks mentioned: Ambarella (AMBA-$55.71)

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

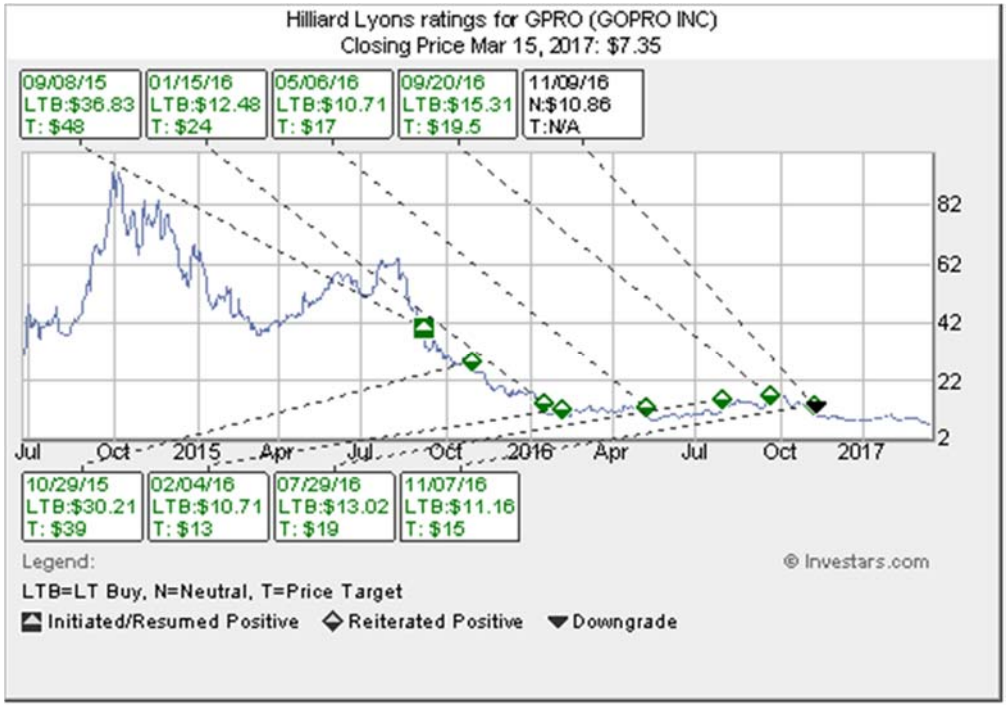
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017

Other Disclosures

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