



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

GPRO - NASDAQ - as of 11/3/17	\$9.13
Price Target	N/A
52-Week Range	\$7.15 - \$12.47
Diluted Shares Outstanding (mm)	145,959
Market Cap. (\$mm)	\$1,332,606
1-Mo. Average Daily Volume	7,332,331
Institutional Ownership	25.7%
Debt/Total Capital (net) Q3'17	0%
ROE	-57%
Book Value / Share	\$2.50
Price / Book Value	3.7x
Dividend Yield	0.0%
LTM EBITDA Margin	-7.5%

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

	Prior	Current		Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.57	(\$0.44)	A	(\$0.32)	(\$0.29)
2Q	(\$0.52)	(\$0.09)	A	(\$0.17)	(\$0.12)
3Q	(\$0.60)	\$0.15	A	\$0.00	\$0.00
4Q	\$0.29	\$0.75	\$0.48	\$0.81	\$0.68
Year	(\$1.44)	\$0.22	\$0.10	\$0.32	\$0.27
P/E	-6.3x		91.3x		33.8x

*Columns may not equal due to rounding

Revenue (\$mil)

	Prior	Current		Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$183.5	\$218.6	A	\$224.7	\$224.7
2Q	\$220.8	\$296.5	A	\$313.5	\$313.5
3Q	\$240.5	\$329.8	A	\$319.2	\$348.0
4Q	\$540.6	\$572.0	\$490.0	\$610.5	\$536.5
Year	\$1,185.5	\$1,397.1	\$1,334.9	\$1,467.9	\$1,422.7

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

Strong Q3 Results; Weak Holiday Quarter Guidance

- Results.** GoPro reported Q3 revenue of \$329.8 million, which was above our \$309.96 million view. Camera unit sales totaled 1.144 million, which was above our 1.08 million view. The average selling price of \$288 was roughly in line with our \$287 estimate. The better than expected performance is attributable to strong sales of the new HERO6 camera and significantly higher growth in the Asia Pacific region. Asia Pacific segment revenue increased 153% y/y. Gross margin of 40.1% was above our 38% view. Operating expense of \$108.2 million was again reduced substantially, well below our \$113.8 million view. Non GAAP EPS was \$0.15 compared to our \$0.01 estimate. Cash increased sequentially to \$196.6 million, up from \$150 million and is expected to continue to increase throughout the holiday season.
- Other Highlights.** GoPro recently launched the HERO6 Black camera, while the HERO5 Black cameras remained the top selling camera in the U.S. Karma was again the #2 best-selling drone brand in the U.S. in the above \$1,000 segment. GoPro will begin selling the Fusion 5.2k spherical camera this month.
- Guidance.** Management provided a Q4 revenue outlook of \$470 million, well below our prior \$572 million view. Operating expense of \$130 million were guided above our prior view of \$111.2 million. EPS was guided to \$0.37 to \$0.47 vs. our prior \$0.75 view. We maintain our Neutral rating. We note GoPro remains a turnaround story. Prudent actions, in our view, taken by management in Q3 led to better than expected results but also limited both downside and upside risk to Q4 which ultimately is weighing on holiday quarter expectations.
- Outlook.** We lower our Q4 EPS estimate to \$0.48 from \$0.75 on revenue of \$490 million. Our revenue estimate declines substantially as the HERO6 Black roll out was larger in Q3 than anticipated. Our FY'17 EPS estimate declines to \$0.10 from \$0.22. Our FY'18 EPS view decreases to \$0.27 from \$0.32.
- Opinion.** We remain encouraged by GoPro's recent results; however, results have been inconsistent and our outlook lacks needed upside to recommend shares. We maintain our Neutral rating.

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.
- 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	Q1'17	Q2'17	Q3'17	Q4'17E	2017E	2018E
Revenue	\$985,737	\$1,394,205	\$1,619,971	\$1,185,481	\$ 218,614	\$ 296,526	\$ 329,805	\$ 490,000	\$1,334,945	\$1,422,750
Cost of revenue	622,375	765,247	944,304	719,689	148,318	189,259	197,619	287,350	822,571	870,493
Gross Profit	\$363,362	\$ 628,958	\$ 675,667	\$ 465,792	\$ 70,296	\$ 107,267	\$ 132,186	\$ 202,650	\$ 512,374	\$ 552,258
Research and development	70,705	140,109	220,516	295,901	53,669	47,459	47,160	47,620	195,908	201,790
Sales and Marketing	151,912	183,807	255,045	342,651	59,923	54,322	43,656	63,815	221,716	221,723
General and administrative	30,049	45,475	59,308	70,247	17,384	14,736	17,368	17,950	67,438	58,866
Non-GAAP Total Operating Expenses	\$252,666	\$ 369,391	\$ 534,869	\$ 708,799	\$ 130,976	\$ 116,517	\$ 108,184	\$ 129,385	\$ 485,062	\$ 482,379
Non-GAAP Income from Operations	\$110,696	\$ 259,567	\$ 140,798	\$ (243,007)	\$ (60,680)	\$ (9,250)	\$ 24,002	\$ 73,265	\$ 27,312	\$ 69,879
Interest and Other Income	(7,374)	(6,060)	(2,163)	(2,205)	(653)	(3,652)	(4,232)	(4,000)	(12,537)	(16,800)
Non-GAAP Income Before Provision for Income Taxes	\$103,322	\$ 253,507	\$ 138,635	\$ (245,212)	\$ (61,333)	\$ (12,902)	\$ 19,770	\$ 69,265	\$ 14,775	\$ 53,079
Provision for income taxes	30,751	52,887	16,454	43,829	22,282	1,991	(10,844)	8,938	22,367	36,934
SBC tax benefit	(3,745)	(11,707)	(11,109)	87,794	20,439	1,991	(9,465)	8,000	20,965	23,500
Non-GAAP Net Income	\$ 68,826	\$ 188,913	\$ 111,072	\$ (201,247)	\$ (63,176)	\$ (12,902)	\$ 21,149	\$ 68,327	\$ 13,373	\$ 39,645
Diluted Shares Outstanding	138,364	143,180	144,624	139,425	142,899	136,288	140,288	141,000	140,119	142,000
Non-GAAP EPS	\$ 0.50	\$ 1.32	\$ 0.75	\$ (1.44)	\$ (0.44)	\$ (0.09)	\$ 0.15	\$ 0.48	\$ 0.10	\$ 0.27
Y/Y Growth Rate										
Total Revenue	87%	41%	16%	-27%	19%	34%	37%	-9%	13%	7%
Cost of Revenue	109%	23%	23%	-24%	29%	49%	38%	-12%	14%	6%
Marketing and sales	37%	21%	39%	34%	-19%	-33%	-50%	-36%	-35%	0%
R&D	104%	98%	57%	34%	-20%	-43%	-41%	-27%	-34%	3%
General & administrative	51%	51%	30%	18%	3%	-18%	-7%	8%	-4%	-13%
Operating income	76%	134%	-46%	NM	-32%	-90%	NM	133%	NM	156%
Net income	66%	174%	-41%	NM	-20%	-82%	NM	62%	NM	196%
Diluted EPS	-11%	165%	-43%	NM	-23%	-82%	NM	68%	NM	176%
Diluted share count	86%	3%	1%	-4%	4%	-2%	0%	-4%	0%	1%
Percentage of Revenue										
Cost of Revenue	63%	55%	58%	61%	68%	64%	60%	59%	62%	61%
Gross Margin	37%	45%	42%	39%	32%	36%	40%	41%	38%	39%
Total costs and expenses	26%	26%	33%	60%	60%	39%	33%	26%	36%	34%
Operating income	11%	19%	9%	-20%	-28%	-3%	7%	15%	2%	5%
Non-GAAP Net Income	7%	14%	7%	-17%	-29%	-4%	6%	14%	1%	3%

Source: Company data & 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	Q3'17
Assets												
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	\$ 164,616
Marketable securities	-	-	102,327	194,386	139,951	115,688	93,315	25,839	25,839	-	-	31,946
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	100,026
Inventory	60,412	111,994	153,026	188,232	139,736	89,889	145,231	167,192	167,192	207,735	126,708	177,190
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	36,471
Total current assets	198,818	358,040	823,043	833,243	602,375	472,162	503,040	587,813	587,813	384,146	401,850	510,249
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	74,196
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	173,319
Other assets	16,958	32,155	36,060	111,561	127,465	133,161	136,713	78,329	78,329	79,831	72,828	67,665
Total assets	246,665	439,671	917,691	1,102,976	928,929	864,380	901,285	922,640	922,640	714,696	721,971	825,429
Liabilities and stockholders' equity												
Accounts payable	53,746	126,423	126,240	89,989	50,989	63,642	158,767	205,028	205,028	129,733	76,208	143,054
Accrued liabilities	48,714	86,391	115,775	184,910	148,309	151,102	183,905	211,323	211,323	170,297	151,317	149,395
Deferred revenue	7,380	7,781	14,022	12,742	13,847	11,605	11,499	14,388	14,388	13,884	15,036	16,301
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	213,145	226,349	354,171	430,739	430,739	313,914	242,561	308,750
Long-term debt	113,613	53,315									125,817	127,861
Other liabilities	6,455	13,930	17,718	35,766	36,389	40,641	39,496	44,956	44,957	35,331	40,771	48,548
Total liabilities	249,268	367,839	276,487	330,943	249,534	266,990	393,667	475,695	475,696	349,245	409,149	485,159
Stockholders' equity:												
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	840,169
Treasury stock, at cost		(19,884)	-	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(35,613)	(113,613)	(113,613)
Retained earnings	(80,220)		108,204	144,335	36,876	(54,891)	(158,959)	(274,668)	(274,668)	(370,411)	(400,947)	(386,286)
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	340,270
Total liabilities and stockholders' equity	246,665	439,671	917,691	1,102,976	928,929	864,380	901,285	922,640	922,640	714,696	721,971	825,429

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

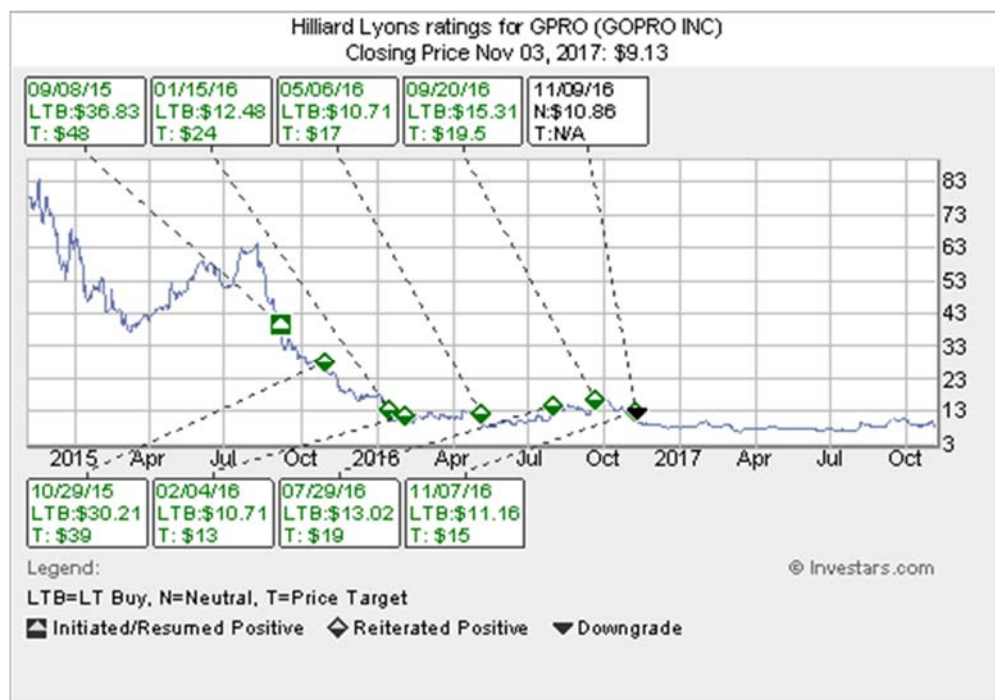
Investment Ratings

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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