



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

| | | |
|---------------------------------|----------|-------------|
| GPRO - NASDAQ - as of | 9/7/17 | \$10.00 |
| Price Target | | N/A |
| 52-Week Range | \$7.15 - | \$17.68 |
| Diluted Shares Outstanding (mm) | | 144,709 |
| Market Cap. (\$mm) | | \$1,447,091 |
| 1-Mo. Average Daily Volume | | 5,800,872 |
| Institutional Ownership | | 25.8% |
| Debt/Total Capital (net) | Q2'17 | 0% |
| ROE | | -79% |
| Book Value / Share | | \$2.30 |
| Price / Book Value | | 4.4x |
| Dividend Yield | | 0.0% |
| LTM EBITDA Margin | | -19.7% |

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

| | Prior | Current | Prior | Current |
|------|----------|------------|----------|----------|
| | 2016A | 2017E | 2018E | 2018E |
| 1Q | \$0.57 | (\$0.44) A | (\$0.36) | (\$0.32) |
| 2Q | (\$0.52) | (\$0.09) A | (\$0.15) | (\$0.17) |
| 3Q | (\$0.60) | \$0.01 | (\$0.01) | \$0.00 |
| 4Q | \$0.29 | \$0.75 | \$0.84 | \$0.81 |
| Year | (\$1.44) | \$0.22 | \$0.31 | \$0.32 |
| P/E | -6.9x | 45.5x | | 31.3x |

*Columns may not equal due to rounding

Revenue (\$mil)

| | Prior | Current | Prior | Current |
|------|-----------|-----------|-----------|-----------|
| | 2016A | 2017E | 2018E | 2018E |
| 1Q | \$183.5 | \$218.6 A | \$224.7 | \$224.7 |
| 2Q | \$220.8 | \$296.5 A | \$275.5 | \$313.5 |
| 3Q | \$240.5 | \$309.9 | \$313.5 | \$319.2 |
| 4Q | \$540.6 | \$572.0 | \$649.0 | \$610.5 |
| Year | \$1,185.5 | \$1,397.1 | \$1,462.7 | \$1,467.9 |

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

Q3 Guidance Update

- Highlights.** GoPro management updated Q3 guidance to reflect expected results at the high end of the prior range. GoPro expects revenue at the high end of its \$290 million to \$310 million estimate. This compares favorably to our prior view of \$301.3 million. GoPro also expects gross margin at the high end of its previous range between 36% and 38% vs. our prior 37% forecast. The company now expects to be profitable on a non GAAP basis compared to our \$0.04 per share loss expectation. Lastly, the company reaffirmed that new products including HERO6 and Fusion will be available later this year.
- Outlook.** We update our Q3 revenue outlook to \$309.9 million, above our prior view of \$301.3 million, which itself was an increase from our beginning of the year outlook of \$285 million. Strong global demand with a significant draw on channel inventory and improved F/X lift our quarterly view and FY'17/18 view. Due to the higher revenue view, our gross margin estimate increases 100 bps to 38% or the high end of the given range, which we find encouraging ahead of a product refresh cycle taking place this Fall. As a result of these changes, our Q3 EPS estimate of \$0.01 increases above our prior -\$0.04 forecast. Our FY'17 EPS estimate improves to \$0.22 from \$0.15 while our FY'18 EPS view increases by a lesser amount to \$0.32 from \$0.31.
- Opinion.** The improved Q3 outlook is being received positively in the market as it appears the downsizing of GoPro's corporate structure and rightsizing of the ship is having positive impacts on bottom line results while improved global demand is boosting top line revenue growth. While we are encouraged by GoPro's updated guidance, we maintain our Neutral-4 rating on shares as we wait to see the level of innovation GoPro's new products including HERO6, Fusion, and QuickStories include and to what extent it boosts consumer demand later this Fall, which could substantially alter our outlook.

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 GAAP 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. 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
- Potential 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 | Q3'17E | Q4'17E | 2017E | Q1'18E | Q2'18E | Q3'18E | Q4'18E | 2018E |
|--|-------------------|---------------------|---------------------|---------------------|--------------------|--------------------|-------------------|-------------------|---------------------|--------------------|--------------------|-------------------|-------------------|---------------------|
| Revenue | \$ 985,737 | \$ 1,394,205 | \$ 1,619,971 | \$ 1,185,481 | \$ 218,614 | \$ 296,526 | \$ 309,960 | \$ 572,000 | \$ 1,397,100 | \$ 224,750 | \$ 313,500 | \$ 319,200 | \$ 610,500 | \$ 1,467,950 |
| Cost of revenue | 622,375 | 765,247 | 944,304 | 719,689 | 148,318 | 189,259 | 193,575 | 347,170 | 878,347 | 147,435 | 199,640 | 199,996 | 371,155 | 918,226 |
| Gross Profit | \$ 363,362 | \$ 628,958 | \$ 675,667 | \$ 465,792 | \$ 70,296 | \$ 107,267 | \$ 116,385 | \$ 224,830 | \$ 518,753 | \$ 77,315 | \$ 113,860 | \$ 119,204 | \$ 239,345 | \$ 549,724 |
| Research and development | 70,705 | 140,109 | 220,516 | 295,901 | 53,669 | 47,459 | 47,093 | 37,840 | 186,061 | 50,683 | 55,500 | 50,456 | 38,445 | 195,084 |
| Sales and Marketing | 151,912 | 183,807 | 255,045 | 342,651 | 59,923 | 54,322 | 53,233 | 65,156 | 232,634 | 49,890 | 61,045 | 53,296 | 64,648 | 228,878 |
| General and administrative | 30,049 | 45,475 | 59,308 | 70,247 | 17,384 | 14,736 | 13,458 | 8,200 | 53,778 | 10,233 | 13,160 | 11,108 | 5,613 | 40,113 |
| Non-GAAP Total Operating Expenses | \$ 252,666 | \$ 369,391 | \$ 534,869 | \$ 708,799 | \$ 130,976 | \$ 116,517 | \$ 113,783 | \$ 111,196 | \$ 472,472 | \$ 110,805 | \$ 129,705 | \$ 114,860 | \$ 108,705 | \$ 464,075 |
| Non-GAAP Income from Operations | \$ 110,696 | \$ 259,567 | \$ 140,798 | \$ (243,007) | \$ (60,680) | \$ (9,250) | \$ 2,602 | \$ 113,634 | \$ 46,281 | \$ (33,490) | \$ (15,845) | \$ 4,344 | \$ 130,640 | \$ 85,650 |
| Interest and Other Income | (7,374) | (6,060) | (2,163) | (2,205) | (653) | (3,652) | (1,500) | (2,000) | (7,805) | (2,200) | (2,200) | (2,200) | (2,200) | (8,800) |
| Non-GAAP Income Before Provision for Income Taxes | \$ 103,322 | \$ 253,507 | \$ 138,635 | \$ (245,212) | \$ (61,333) | \$ (12,902) | \$ 1,102 | \$ 111,634 | \$ 38,476 | \$ (35,690) | \$ (18,045) | \$ 2,144 | \$ 128,440 | \$ 76,850 |
| Provision for income taxes | 30,751 | 52,887 | 16,454 | 43,829 | 22,282 | 1,991 | (1,000) | 19,806 | 43,079 | 8,421 | 5,362 | 2,365 | 23,870 | 40,018 |
| SBC tax benefit | (3,745) | (11,707) | (11,109) | 87,794 | 20,439 | 1,991 | (200) | 11,000 | 33,230 | - | - | - | 11,000 | 11,000 |
| Non-GAAP Net Income | \$ 68,826 | \$ 188,913 | \$ 111,072 | \$ (201,247) | \$ (63,176) | \$ (12,902) | \$ 1,902 | \$ 102,828 | \$ 28,627 | \$ (44,111) | \$ (23,406) | \$ (221) | \$ 115,570 | \$ 47,832 |
| Diluted Shares Outstanding | 138,364 | 143,180 | 144,624 | 139,425 | 142,899 | 136,288 | 137,000 | 138,000 | 138,547 | 139,000 | 140,500 | 142,000 | 143,000 | 141,125 |
| Non-GAAP EPS | \$ 0.50 | \$ 1.32 | \$ 0.75 | \$ (1.44) | \$ (0.44) | \$ (0.09) | \$ 0.01 | \$ 0.75 | \$ 0.22 | \$ (0.32) | \$ (0.17) | \$ (0.00) | \$ 0.81 | \$ 0.32 |
| Y/Y Growth Rate | | | | | | | | | | | | | | |
| Total Revenue | 87% | 41% | 16% | -27% | 19% | 34% | 29% | 6% | 18% | 3% | 6% | 3% | 7% | 5% |
| Cost of Revenue | 109% | 23% | 23% | -24% | 29% | 49% | 36% | 6% | 22% | -1% | 5% | 3% | 7% | 5% |
| Marketing and sales | 37% | 21% | 39% | 34% | -19% | -33% | -39% | -35% | -32% | -17% | 12% | 0% | -1% | -2% |
| R&D | 104% | 98% | 57% | 34% | -20% | -43% | -41% | -42% | -37% | -6% | 17% | 7% | 2% | 5% |
| General & administrative | 51% | 51% | 30% | 18% | 3% | -18% | -28% | -51% | -23% | -41% | -11% | -17% | -32% | -25% |
| Operating income | 76% | 134% | -46% | NM | -32% | -90% | NM | 261% | NM | -45% | NM | 67% | 15% | 85% |
| Net income | 66% | 174% | -41% | NM | -20% | -82% | NM | 143% | NM | -30% | 81% | -112% | 12% | 67% |
| Diluted EPS | -11% | 165% | -43% | NM | -23% | -82% | NM | 158% | NM | -28% | 76% | -111% | 8% | 45% |
| Diluted share count | 86% | 3% | 1% | -4% | 4% | -2% | -2% | -6% | -1% | -3% | 3% | 4% | 4% | 2% |
| Percentage of Revenue | | | | | | | | | | | | | | |
| Cost of Revenue | 63% | 55% | 58% | 61% | 68% | 64% | 62% | 61% | 63% | 66% | 64% | 63% | 61% | 63% |
| Gross Margin | 37% | 45% | 42% | 39% | 32% | 36% | 38% | 39% | 37% | 34% | 36% | 37% | 39% | 37% |
| Total costs and expenses | 26% | 26% | 33% | 60% | 60% | 39% | 37% | 19% | 34% | 49% | 41% | 36% | 18% | 32% |
| Operating income | 11% | 19% | 9% | -20% | -28% | -3% | 1% | 20% | 3% | -15% | -5% | 1% | 21% | 6% |
| Non-GAAP Net Income | 7% | 14% | 7% | -17% | -29% | -4% | 1% | 18% | 2% | -20% | -7% | 0% | 19% | 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 |
|---|----------------|----------------|----------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 |
| 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 | | | | | | | | | |
| 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 |
| 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 |
| Total liabilities | 249,268 | 367,839 | 276,487 | 330,943 | 249,534 | 266,990 | 393,667 | 475,695 | 475,696 | 349,245 | 409,149 |
| 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 |
| 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 |
| 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 |

Source: Company data

Other stocks mentioned: Ambarella (AMBA-\$42.94)

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

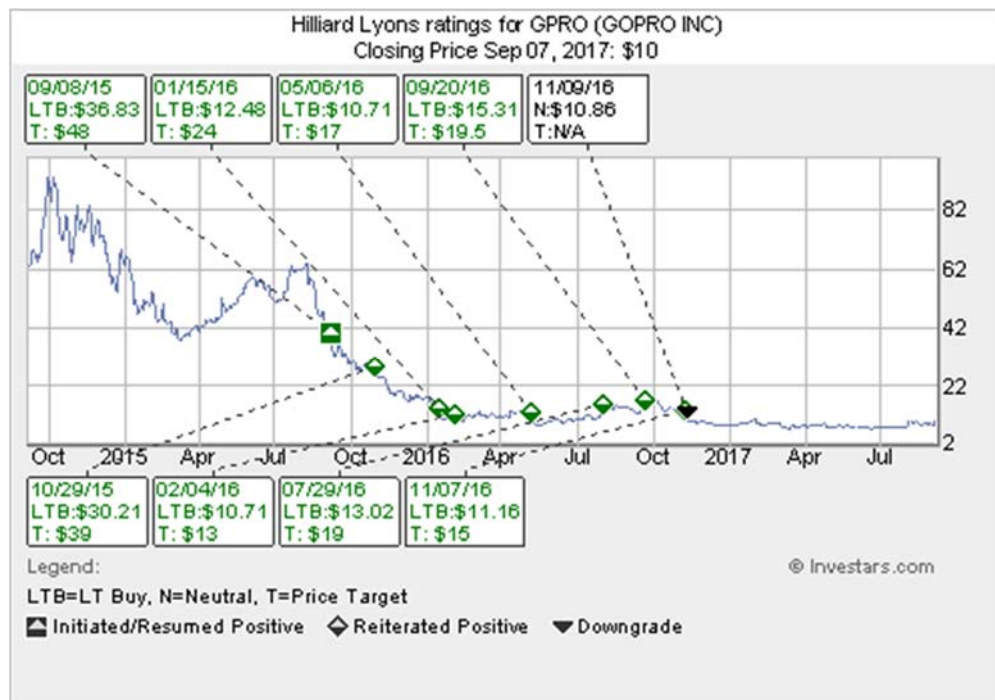
Investment Ratings

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 | 40 | 32% | 10% | 90% |
| Hold/Neutral | 77 | 62% | 8% | 92% |
| Sell | 8 | 6% | 0% | 100% |

As of 6 September 2017

Other Disclosures

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