
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): May 7, 2020



(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-36514
(Commission File No.)

77-0629474
(I.R.S. Employer
Identification No.)

3000 Clearview Way, San Mateo, CA 94402
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (650) 332-7600

N/A
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock	GPRO	NASDAQ Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On May 7, 2020, GoPro, Inc. (the "Company") issued a press release to report its financial results for its first quarter ended March 31, 2020.

A copy of the press release is furnished as Exhibit 99.1 to this report.

The information contained herein and in the accompanying exhibit shall not be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference to this or such filing. The information in this report, including the exhibit hereto, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended.

Item 7.01. Regulation FD Disclosure.

On May 7, 2020, the Company held a live audio webcast to discuss its financial results for its first quarter ended March 31, 2020.

A copy of management's commentary from Nicholas Woodman, our Chief Executive Officer, and Brian McGee, our Chief Financial Officer and Chief Operating Officer, is attached as Exhibit 99.2, and is incorporated by reference into this Current Report on Form 8-K.

The information in Item 7.01 of this Current Report on Form 8-K, including Exhibit 99.2, shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. The information in Item 7.01 of this Current Report on Form 8-K shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as may be expressly set forth by specific reference in such filing or document.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit Number	Description of Document
99.1	Press Release of GoPro, Inc. dated May 7, 2020 to report its financial results for its first quarter ended March 31, 2020.
99.2	Management's commentary from Nicholas Woodman, Chief Executive Officer, and Brian McGee, Chief Financial Officer and Chief Operating Officer, dated May 7, 2020 (furnished pursuant to Item 7.01).
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GoPro, Inc.
(Registrant)

Dated: May 7, 2020

By: /s/ Brian McGee

Brian McGee
Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)



GoPro Announces First Quarter 2020 Results

*Revenue of \$119 Million In-Line with Preliminary Results Shared on April 15
GoPro.com Percentage of Revenue Increases; Direct-to-Consumer Transition is Underway*

SAN MATEO, Calif., May 7, 2020 - GoPro, Inc. (NASDAQ: GPRO) today announced financial results for its first quarter ended March 31, 2020.

"We've taken decisive action to transition into a more efficient and profitable direct-to-consumer business," said GoPro founder and CEO, Nicholas Woodman. "This benefits GoPro with a substantially reduced operating expense model, improved gross margin and a significantly lower threshold to profitability."

GoPro Q1 2020 Financial Results

- Revenue for Q1 2020 was \$119 million, in-line with the preliminary results published on April 15, and down from \$243 million for the same prior year period.
- GAAP gross margin for Q1 2020 was 32.2%, slightly down from 33.1% year-over-year. Non-GAAP gross margin for Q1 2020 was 34.2%, flat from the prior year.
- Q1 2020 GAAP net loss was \$64 million, or \$0.43 per share. Non-GAAP net loss was \$50 million, or \$0.34 per share.
- Q1 2020 GAAP operating expenses of \$95 million decreased 6% year-over-year. Q1 2020 non-GAAP operating expenses were \$87 million, down 4% year-over-year. GAAP and non-GAAP operating expenses were at their lowest levels since 2014.
- Adjusted EBITDA for the first quarter of 2020 was negative \$41 million, compared to negative \$1 million in the same period a year ago.
- Cash and investments totaled \$125 million at the end of Q1 2020.

Recent GoPro Highlights

- GoPro.com represented a record percentage of revenue in Q1 2020 at 17%, up from 11% in Q1 2019.
- Cameras with retail prices above \$300 represented nearly 90% of Q1 2020 revenue, continuing a trend of consumers moving to our high-end cameras.
- GoPro's Plus subscription service ended Q1 2020 with 355,000 paid subscribers, up 14% sequentially and up 69% year-over-year.
- Social followers increased by more than 1.3 million across all channels in Q1 2020 to more than 44 million, driven primarily by increases on Instagram, TikTok and YouTube.
- Organic viewership of GoPro content grew more than 40% both sequentially and year-over-year to a record quarterly high of 243 million organic, non-paid views in Q1 2020.
- On April 15, GoPro announced Aimée Lopic, former Pandora and Banana Republic Chief Marketing Officer, as its Chief Digital Officer to lead direct-to-consumer growth initiatives.

"While our business slowed due to COVID-19, consumers have continued to purchase GoPro cameras at substantial levels during the pandemic, and since early April we've seen sell-through trend in a positive direction," said Brian McGee, GoPro CFO and COO. "Operationally we are performing well during a difficult period and we are extremely proud of our team's dedication. We expect our shift to a more consumer-direct model allows us to succeed both during the pandemic and in the long-term."

Results Summary:

(\$ in thousands, except per share amounts)	Three months ended March 31,		
	2020	2019	% Change
Revenue	\$ 119,400	\$ 242,708	(50.8)%
Gross margin			
GAAP	32.2%	33.1%	(90) bps
Non-GAAP	34.2%	34.2%	—
Operating loss			
GAAP	\$ (56,114)	\$ (20,288)	176.6 %
Non-GAAP	\$ (46,654)	\$ (8,118)	474.7 %
Net loss			
GAAP	\$ (63,528)	\$ (24,365)	160.7 %
Non-GAAP	\$ (49,613)	\$ (10,171)	387.8 %
Diluted net loss per share			
GAAP	\$ (0.43)	\$ (0.17)	152.9 %
Non-GAAP	\$ (0.34)	\$ (0.07)	385.7 %
Adjusted EBITDA	\$ (41,356)	\$ (1,035)	3,895.7 %

Conference Call

GoPro management will host a conference call and live webcast for analysts and investors today at 2 p.m. Pacific Time (5 p.m. Eastern Time) to discuss the Company's financial results.

Prior to the start of the call, the Company will post Management Commentary on the "Financials" section of its Investor Relations website at <https://investor.gopro.com>. Management will make brief opening comments before taking questions.

To listen to the live conference call, please dial toll free (800) 458-4121 or (720) 543-0206, access code 3327779, approximately 15 minutes prior to the start of the call. A live webcast of the conference call will be accessible on the "Events & Presentations" section of the Company's website at <https://investor.gopro.com>. A recording of the webcast will be available on GoPro's website, <https://investor.gopro.com>, approximately two hours after the call and for 90 days thereafter.

About GoPro, Inc. (NASDAQ: GPRO)

GoPro helps the world celebrate and share itself in immersive and exciting ways.

GoPro, HERO and their respective logos are trademarks or registered trademarks of GoPro, Inc. in the United States and other countries.

For more information, visit www.gopro.com. GoPro users can submit their photos, raw clips and video edits to GoPro Awards for social stoke, GoPro gear and cash prizes. Learn more at www.gopro.com/awards. Connect with GoPro on [Facebook](#), [Instagram](#), [LinkedIn](#), [TikTok](#), [Twitter](#), [YouTube](#), and GoPro's blog [The Inside Line](#).

GoPro's Use of Social Media

GoPro announces material financial information using the Company's investor relations website, SEC filings, press releases, public conference calls and webcasts. GoPro may also use social media channels to communicate about the Company, its brand and other matters; these communications could be deemed material information. Investors and others are encouraged to review posts on GoPro's pages on Facebook, Instagram, LinkedIn, TikTok, Twitter, YouTube, GoPro's investor relations website and [The Inside Line](#).

Note Regarding Use of Non-GAAP Financial Measures

GoPro reports gross profit, gross margin, operating expenses, operating income (loss), other income (expense), tax expense, net income (loss) and diluted net income (loss) per share in accordance with U.S. generally accepted accounting principles (GAAP) and on a non-GAAP basis. Additionally, GoPro reports non-GAAP adjusted EBITDA. Non-GAAP items exclude, where applicable, the effects of stock-based compensation, acquisition-related costs, restructuring and other related costs, non-cash interest expense, gain on sale and license of intellectual property and the tax impact of these items. When planning, forecasting and analyzing gross margin, operating expenses, other income (expense), tax expense, net income (loss) and net income (loss) per share for future periods, GoPro does so primarily on a non-GAAP basis without preparing a GAAP analysis as that would require estimates for reconciling items which are inherently difficult to predict with reasonable accuracy.

Note on Forward-looking Statements

This press release may contain projections or other forward-looking statements within the meaning Section 27A of the Private Securities Litigation Reform Act. Words such as "anticipate," "believe," "estimate," "expect," "intend," "should," "will" and variations of these terms or the negative of these terms and similar expressions are intended to identify these forward-looking statements. Forward-looking statements in this presentation may include, but are not limited to planned growth and increased profitability in 2020 and beyond. These statements involve risks and uncertainties, and actual events or results may differ materially. Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are our ability to effectively manage late stage production delay, the risk that our reduction in operating expenses may impact our ability to meet our business objectives and achieve our revenue targets, and may not result in the expected improvement in our profitability; our ability to continue to focus on expense management; the fact that our plan to profitability depends in part on further penetrating our addressable market, and we may not be successful in doing so; the risk that growing our direct to consumer business while reducing our reliance on our other sales channels could impact profitability; the impact of the COVID-19 pandemic and its effect on the United states and global economies and our business in particular; any inability to successfully manage frequent product introductions (including roadmap for new hardware, software and subscription products) and transitions, including managing our sales channel and inventory, and accurately forecasting future sales; the fact that a small number of retailers and distributors account for a substantial portion of our revenue and our level of business with them could be significantly reduced due to retail

closures related to COVID-19; the fact that we plan to transition from some distributors and retailers as we shift our sales strategy to focus on our direct-to-consumer channel, and that transition may result in reduced revenue and profitability; our reliance on third party suppliers, some of which are sole source suppliers, to provide components for our products and our reliance on third party logistics partners to deliver without interruption; our dependence on sales of our cameras, mounts and accessories, and subscription services for substantially all of our revenue (and the effects of changes in the sales mix or decrease in demand for these products); the fact that an economic downturn or economic uncertainty in our key U.S. and international markets, as well as fluctuations in currency exchange rates, may adversely affect consumer discretionary spending; any changes to trade agreements, trade policies, tariffs, and import/export regulations; the effects of transferring most U.S.-bound production out of China and our ability to manufacture in Mexico; the effects of the highly competitive market in which we operate, including new market entrants; the fact that we may not be able to achieve revenue growth or profitability in the future; risks related to inventory, purchase commitments and long-lived assets; difficulty in accurately predicting our future customer demand; the importance of maintaining the value and reputation of our brand; the risk that the e-commerce technology systems that give consumers the ability to shop online do not function effectively; the risk that we will encounter problems with our distribution system; the threat of a security breach or other disruption including cyberattacks; the concern that our intellectual property and proprietary rights may not adequately protect our products and services; and other factors detailed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2019, which is on file with the Securities and Exchange Commission (SEC), and as updated in future filings with the SEC including the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. These forward-looking statements speak only as of the date hereof or as of the date otherwise stated herein. GoPro disclaims any obligation to update these forward-looking statements.

GoPro, Inc.
Preliminary Condensed Consolidated Statement of Operations
(unaudited)

(in thousands, except per share data)	Three months ended March 31,	
	2020	2019
Revenue	\$ 119,400	\$ 242,708
Cost of revenue	80,973	162,361
Gross profit	38,427	80,347
Operating expenses:		
Research and development	32,281	37,464
Sales and marketing	43,502	47,290
General and administrative	18,758	15,881
Total operating expenses	94,541	100,635
Operating loss	(56,114)	(20,288)
Other income (expense):		
Interest expense	(4,843)	(4,527)
Other income (expense), net	(172)	828
Total other expense, net	(5,015)	(3,699)
Loss before income taxes	(61,129)	(23,987)
Income tax expense	2,399	378
Net loss	\$ (63,528)	\$ (24,365)
Basic and diluted net loss per share	\$ (0.43)	\$ (0.17)
Weighted-average number of shares outstanding, basic and diluted	147,560	142,601

GoPro, Inc.
Preliminary Condensed Consolidated Balance Sheets
(unaudited)

(in thousands)	March 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 117,435	\$ 150,301
Marketable securities	7,495	14,847
Accounts receivable, net	50,991	200,634
Inventory	172,022	144,236
Prepaid expenses and other current assets	24,942	25,958
Total current assets	372,885	535,976
Property and equipment, net	33,670	36,539
Operating lease right-of-use assets	51,086	53,121
Intangible assets, net and goodwill	150,384	151,706
Other long-term assets	15,013	15,461
Total assets	\$ 623,038	\$ 792,803
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 63,776	\$ 160,695
Accrued expenses and other current liabilities	97,543	141,790
Short-term operating lease liabilities	8,871	9,099
Deferred revenue	14,421	15,467
Short-term debt	30,000	—
Total current liabilities	214,611	327,051
Long-term debt	151,392	148,810
Long-term operating lease liabilities	60,351	62,961
Other long-term liabilities	19,186	20,452
Total liabilities	445,540	559,274
Stockholders' equity:		
Common stock and additional paid-in capital	938,372	930,875
Treasury stock, at cost	(113,613)	(113,613)
Accumulated deficit	(647,261)	(583,733)
Total stockholders' equity	177,498	233,529
Total liabilities and stockholders' equity	\$ 623,038	\$ 792,803

GoPro, Inc.
Preliminary Condensed Consolidated Statement of Cash Flows
(unaudited)

(in thousands)	Three months ended March 31,	
	2020	2019
Operating activities:		
Net loss	\$ (63,528)	\$ (24,365)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,983	6,850
Non-cash operating lease cost	2,035	2,626
Stock-based compensation	7,637	9,785
Deferred income taxes	6	(38)
Non-cash restructuring charges	—	(201)
Non-cash interest expense	2,373	2,142
Other	672	(329)
Net changes in operating assets and liabilities	(23,462)	(61,454)
Net cash used in operating activities	(68,284)	(64,984)
Investing activities:		
Purchases of property and equipment, net	(795)	(724)
Purchases of marketable securities	—	(6,948)
Maturities of marketable securities	7,330	4,400
Sale of marketable securities	—	1,889
Asset acquisition	(438)	—
Net cash provided by (used in) investing activities	6,097	(1,383)
Financing activities:		
Proceeds from issuance of common stock	1,887	3,812
Taxes paid related to net share settlement of equity awards	(2,003)	(2,673)
Proceeds from borrowings	30,000	—
Net cash provided by financing activities	29,884	1,139
Effect of exchange rate changes on cash and cash equivalents	(563)	74
Net change in cash and cash equivalents	(32,866)	(65,154)
Cash and cash equivalents at beginning of period	150,301	152,095
Cash and cash equivalents at end of period	\$ 117,435	\$ 86,941

GoPro, Inc.
Reconciliation of Preliminary GAAP to Non-GAAP Financial Measures

To supplement our unaudited selected financial data presented on a basis consistent with GAAP, we disclose certain non-GAAP financial measures, including non-GAAP gross profit, gross margin, operating expenses, operating income (loss), other income (expense), tax expense, net income (loss), diluted net income (loss) per share and adjusted EBITDA. We also provide forecasts of non-GAAP gross margin, non-GAAP operating expenses, non-GAAP other income (expense), non-GAAP tax expense, non-GAAP net income (loss) and non-GAAP diluted net income (loss) per share. We use these non-GAAP financial measures to help us understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operational plans. Our management uses, and believes that investors benefit from referring to these non-GAAP financial measures in assessing our operating results. These non-GAAP financial measures should not be considered in isolation from, or as an alternative to, the measures prepared in accordance with GAAP, and are not based on any comprehensive set of accounting rules or principles. We believe that these non-GAAP measures, when read in conjunction with our GAAP financials, provide useful information to investors by facilitating:

- the comparability of our on-going operating results over the periods presented;
- the ability to identify trends in our underlying business; and
- the comparison of our operating results against analyst financial models and operating results of other public companies that supplement their GAAP results with non-GAAP financial measures.

These non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. Some of these limitations are:

- adjusted EBITDA does not reflect tax payments that reduce cash available to us;
 - adjusted EBITDA excludes depreciation and amortization and, although these are non-cash charges, the property and equipment being depreciated and amortized often will have to be replaced in the future, and adjusted EBITDA does not reflect any cash capital expenditure requirements for such replacements;
 - adjusted EBITDA excludes the amortization of point of purchase (POP) display assets because it is a non-cash charge, and is treated similarly to depreciation of property and equipment and amortization of acquired intangible assets;
 - adjusted EBITDA and non-GAAP net income (loss) exclude the impairment of intangible assets because it is a non-cash charge that is inconsistent in amount and frequency;
 - adjusted EBITDA and non-GAAP net income (loss) exclude restructuring and other related costs which primarily include severance-related costs, stock-based compensation expenses, facilities consolidation charges recorded in connection with restructuring actions announced in the fourth quarter of 2016, first quarter of 2017 and first quarter of 2018, and the related ongoing operating lease cost of those facilities recorded under Accounting Standards Codification 842, *Leases*. These expenses do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of current operating performance or comparisons to the operating performance in other periods;
 - adjusted EBITDA and non-GAAP net income (loss) exclude stock-based compensation expense related to equity awards granted primarily to our workforce. We exclude stock-based compensation expense because we believe that the non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In particular, we note that companies calculate stock-based compensation expense for the variety of award types that they employ using different valuation methodologies and subjective assumptions. These non-cash charges are not factored into our internal evaluation of net income (loss) as we believe their inclusion would hinder our ability to assess core operational performance;
 - non-GAAP net income (loss) excludes acquisition-related costs including the amortization of acquired intangible assets (primarily consisting of acquired technology), the impairment of acquired intangible assets (if applicable), as well as third-party transaction costs incurred for legal and other professional services. These costs are not factored into our evaluation of potential acquisitions, or of our performance after completion of the acquisitions, because these costs are not related to our core operating performance or reflective of ongoing operating results in the period, and the frequency and amount of such costs are inconsistent and vary significantly based on the timing and magnitude of our acquisition transactions and
-

the maturities of the businesses being acquired. Although we exclude the amortization of acquired intangible assets from our non-GAAP net income (loss), management believes that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation;

- non-GAAP net income (loss) excludes non-cash interest expense. In connection with the issuance of the Convertible Senior Notes in April 2017, we are required to recognize non-cash interest expense in accordance with the authoritative accounting guidance for convertible debt that may be settled in cash;
 - non-GAAP net income (loss) excludes a gain on the sale and license of intellectual property. This gain is not related to our core operating performance or reflective of ongoing operating results in the period, and the frequency and amount of such gains are inconsistent;
 - non-GAAP net income (loss) includes income tax adjustments. We utilize a cash-based non-GAAP tax expense approach (based upon expected annual cash payments for income taxes) for evaluating operating performance as well as for planning and forecasting purposes. This non-GAAP tax approach eliminates the effects of period specific items, which can vary in size and frequency and does not necessarily reflect our long-term operations. Historically, we computed a non-GAAP tax rate based on non-GAAP pre-tax income on a quarterly basis, which considered the income tax effects of the adjustments above; and
 - other companies may calculate these non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.
-

GoPro, Inc.
Reconciliation of Preliminary GAAP to Non-GAAP Financial Measures
(unaudited)

Reconciliations of non-GAAP financial measures are set forth below:

(in thousands, except per share data)	Three months ended March 31,	
	2020	2019
GAAP net loss	\$ (63,528)	\$ (24,365)
Stock-based compensation:		
Cost of revenue	503	513
Research and development	3,022	4,677
Sales and marketing	1,717	2,213
General and administrative	2,395	2,382
Total stock-based compensation	7,637	9,785
Acquisition-related costs:		
Cost of revenue	1,887	2,082
Total acquisition-related costs	1,887	2,082
Restructuring and other costs:		
Cost of revenue	(4)	16
Research and development	(24)	97
Sales and marketing	(19)	103
General and administrative	(17)	87
Total restructuring and other costs	(64)	303
Non-cash interest expense	2,373	2,142
Income tax adjustments	2,082	(118)
Non-GAAP net loss	\$ (49,613)	\$ (10,171)
GAAP and non-GAAP shares for diluted net loss per share	147,560	142,601
GAAP diluted net loss per share	\$ (0.43)	\$ (0.17)
Non-GAAP diluted net loss per share	\$ (0.34)	\$ (0.07)

(dollars in thousands)	Three months ended March 31,	
	2020	2019
GAAP gross profit as a % of revenue	32.2%	33.1%
Stock-based compensation	0.4	0.2
Acquisition-related costs	1.6	0.9
Non-GAAP gross profit as a % of revenue	34.2%	34.2%
GAAP operating expenses	\$ 94,541	\$ 100,635
Stock-based compensation	(7,134)	(9,272)
Restructuring and other costs	60	(287)
Non-GAAP operating expenses	\$ 87,467	\$ 91,076
GAAP operating loss	\$ (56,114)	\$ (20,288)
Stock-based compensation	7,637	9,785
Acquisition-related costs	1,887	2,082
Restructuring and other costs	(64)	303
Non-GAAP operating loss	\$ (46,654)	\$ (8,118)

(in thousands)	Three months ended March 31,	
	2020	2019
GAAP net loss	\$ (63,528)	\$ (24,365)
Income tax expense	2,399	378
Interest expense, net	4,681	4,083
Depreciation and amortization	5,982	6,850
POP display amortization	1,537	1,931
Stock-based compensation	7,637	9,785
Restructuring and other costs	(64)	303
Adjusted EBITDA	\$ (41,356)	\$ (1,035)

#####

Investor Contact

investor@gopro.com

Media Contact

Christopher Clark

pr@gopro.com



May 7th, 2020

GoPro, Inc. (NASDAQ: GPRO)

Management Commentary

Q1 2020 Earnings Call



Management Commentary

Christopher Clark

Vice President, Corporate Communications, GoPro, Inc.

Enclosed is GoPro's Q1 2020 earnings report. Following this brief introduction are remarks from GoPro CEO, Nicholas Woodman, and CFO and COO, Brian McGee. I'd like to remind everyone that these remarks may include forward-looking statements. Forward-looking statements and all other statements that are not historical facts are not guarantees of future performance and are subject to a number of risks and uncertainties which may cause actual results to differ materially. Additionally, any forward-looking statements made today are based on assumptions as of today, including but not limited to the assumption that the COVID-19 pandemic does not materially worsen. We do not undertake any obligation to update these statements as a result of new information or future events. Information concerning our risk factors is available in our most recent annual report on Form 10-K for the year ended December 31, 2019, which is on file with the Securities and Exchange Commission and in other reports that we may file from time to time with the SEC.

In this report, we may discuss gross margin, operating expense, net profit and loss as well as basic and diluted net profit and loss per share in accordance with GAAP and, additionally, on a non-GAAP basis. We believe that non-GAAP information is useful because it can enhance the understanding of our ongoing economic performance. We use non-GAAP reporting internally to evaluate and manage our operations. We choose to provide this information to enable investors to perform comparisons of operating results in a manner similar to how we analyze our own operating results. A reconciliation of GAAP to non-GAAP operating expenses can be found in the press release that was issued this afternoon, and which is posted on our website.

In addition to the earnings press release, we have posted slides containing detailed financial data and metrics for the first quarter 2020. These slides, as well as a link to today's live webcast and a replay of this conference call are posted on the GoPro Investor Relations website for your reference. All income statement-related numbers that are discussed in our remarks, other than revenue, are non-GAAP, unless otherwise noted.



Nicholas Woodman

Founder, Chief Executive Officer and Chairman, GoPro, Inc.

Thank you for taking time to read GoPro's Q1 2020 earnings report. In the remarks below, I review our first quarter 2020 performance, the impact from COVID-19, and provide details regarding our strategic shift to a more direct-to-consumer business model. Then Brian will walk you through our numbers, framing 2020 and 2021. Underlying our remarks today is an assumption that the pandemic does not materially worsen from today.

I'd like to start by thanking GoPro's employees around the world for their resilience during these difficult times. I'm proud of how well everyone has come together and continued to execute while working remotely. This has been another example of your ability to adapt and excel in the face of challenge. Your dedication and passion for GoPro gives me great confidence in our potential going forward.

I'd also like to share some of the unique ways our customers are using GoPro to help them adapt to the crisis. Whether it's frontline workers in New York who used GoPros to capture vital public service information from inside hospitals, medical professionals using GoPros to train surgeons remotely, or teachers using GoPros to stay connected with their students, we are grateful to know our products are playing a part in helping people in this challenging time. An upcoming firmware update will make it easy to use a GoPro as a webcam and we're advancing the already impressive live-streaming capabilities of our cameras to further serve the productivity and communications needs of our customers.

And as a company, we are adapting to these challenging times as well. After a strong start to 2020, our business began to slow as the world grappled with the implications of COVID-19. On April 15, we announced a strategic re-alignment to transition to a more efficient and profitable direct-to-consumer business to better position ourselves for success moving forward.

Revenue in Q1 was \$119 million, below the guidance we provided on our Q4 call on February 5th and in-line with our preliminary results provided on April 15th. Sell-through in the quarter was roughly 700,000 cameras. Since the first half of April, we've seen demand begin to rebound and consistently trend upwards, the details of which Brian will expand on.



On February 5th I shared that in 2020 we'd be focused on scaling our direct-to-consumer capabilities to improve profitability. COVID-19 has served as a catalyst for us to accelerate this strategy. We expect gopro.com's share-of-revenue to grow to nearly 40% for the second quarter, which would represent a more than doubling of unit sell-through growth on a year-over-year basis.

Our plan to further shift revenue to gopro.com will focus on the following initiatives in North America and Europe:

- Our flagship products will be primarily sold through gopro.com, alongside our entire portfolio of products, to super-serve consumers with expanded value that is only possible via a direct-to-consumer approach.
- We will continue to sell our mid and entry-level products through select retailers and specialty stores.
- We will expand our subscription offerings to provide outsized value to consumers while increasing their lifetime value to GoPro.

We will continue to use our existing distribution network and traditional go-to-market approach in Asia Pacific and Latin America, which combined represented approximately 31% of our revenue in 2019.

Our more consumer-direct-centric strategy, combined with our 2020 Non-GAAP operating expense budget of \$285 million to \$290 million and our 2021 expense target of \$250 million, should position GoPro to succeed both during and after the pandemic. We believe our cash and liquidity position adequately meets our needs to operate the company. In addition, our lower cost operating model and expected margin improvement from increased direct sales significantly lowers GoPro's threshold to achieve profitability, enabling us to achieve breakeven on a Non-GAAP EPS basis at roughly 2 million units sold across all channels.

We believe GoPro's global brand strength and market leadership uniquely position us to succeed as a direct-to-consumer business. Over the past 16 years, we've invested over one billion dollars in marketing to build GoPro into one of the most well-known and admired brands in the world. By serving customers directly via gopro.com, we can provide them with value that far exceeds what is possible through traditional retail channels, and expand their lifetime value to GoPro while simultaneously expanding GoPro's operating profit - which Brian will explain in more detail.



Our subscription offering will play an increasingly important role in delivering the outsized consumer value and expanded lifetime value I mention above. Our strategy around this will become more apparent by the end of Q2. At the end of Q1, we had 355,000 paying subscribers, a sequential gain of 14%, and 69% year-over-year.

On April 15, GoPro welcomed Aimée Lopic as our new Chief Digital Officer. Aimée brings a fresh perspective and a proven track record driving subscription and consumer product sales as Chief Marketing Officer for both Pandora and Banana Republic. We're already feeling a positive impact from Aimée's presence and she's only been here for three weeks.

Related to GoPro's direct-to-consumer strategy is our industry-leading social marketing strength, which continues to grow. In Q1 2020, we gained more than 1.3 million new social followers, driven by continued growth on Instagram, YouTube and TikTok, and record levels of engagement. Organic viewership of GoPro content across all social channels achieved 243 million views in Q1, an all-time high.

And we are extremely excited about our 2020 and 2021 product roadmap, which remains on-track and unchanged despite our recent restructuring. Our Fall hardware launch is sure to 'WOW' just as previous launches have. And as we've mentioned, we plan to introduce and monetize a new GoPro App experience we believe solves widespread pain points for GoPro owners and smartphone users alike.

Before transitioning to Brian, I want to underscore that we believe the decisive action we've taken gives us a much improved, cash-generating business model that sets us up to succeed in the near term with the potential to be more profitable than ever in the long term.

Brian McGee

Executive Vice President, Chief Financial Officer and Chief Operating Officer, GoPro, Inc.

My comments on the first quarter will allow us to fill in some of the details from the results we provided in our April 15th press release. After a summary of our first quarter results, I'll provide more color on our strategic shift to a direct-to-consumer operating model, as well as our perspective on future financial performance. As you heard from Nick, underlying our remarks today is an assumption that the pandemic does not materially worsen from today.

In the first quarter of 2020, revenue was \$119.4 million with a non-GAAP net loss of \$49.6 million. Sales through gopro.com represented 17% of revenue up from 11% of revenue in the fourth quarter of 2019. First quarter GAAP and non-GAAP operating expenses benefited from a decrease in advertising spend and lower employee related costs. GAAP operating expenses were \$94.5 million and non-GAAP operating expenses were \$87.5 million, representing year-over-year reductions of 6% and 4%, respectively. GAAP and non-GAAP loss per share were \$0.43 and \$0.34, respectively. It is worth noting that the reduction in force and other strategic restructuring actions did not impact our first quarter results as those actions occurred after the quarter ended.

We estimate camera unit sell-through for the first quarter of 2020 was approximately 700,000 units. Global sell-through of our cameras hit a trough in the last two weeks of March. Since then, we have seen a pick-up in demand each successive week in April, particularly on gopro.com. We estimate channel inventory levels decreased by 30% in the quarter to approximately 1 million units.

Cameras with retail prices above \$300 represented nearly 90% of our revenue in the first quarter, continuing a trend from 2018 and 2019 of consumers moving to our higher priced, and more profitable cameras. Camera units shipped into the channel during the quarter totaled 341,000. The sales of high-end cameras and accessories along with the increase in Plus subscribers resulted in our highest ever Street ASP of \$351, a 23% sequential improvement. As a frame of reference, 2019 average quarterly Street ASP was \$280. Street ASP is defined as total reported revenue divided by camera units shipped.



Turning to the balance sheet, we ended the quarter with \$125 million in cash and cash equivalents, which included a \$30 million draw on our ABL. Excluding the \$30 million ABL draw, cash would have been down approximately \$65 million sequentially due to the following factors:

- EBITDA loss of \$41 million
- Inventory increased by \$28 million
- Accounts payable and accrued liabilities decrease of \$141 million, offset by a decrease in accounts receivable of \$150 million

While we withdrew our formal guidance for 2020, we want to provide analysts and investors with commentary on trends and business model expectations for 2020 and 2021.

As Nick mentioned, we've seen demand begin to rebound and trend upwards since early April. Current trends indicate that camera unit sell-through should be approximately 600,000 units for the second quarter. And, we believe camera unit growth will more than double on gopro.com on a year-over-year basis, a channel our new Chief Digital Officer Aimée Lopic is focused on scaling.

If we extrapolate from current demand we are seeing in the second quarter, combined with our plans in the second half to provide outsized value to consumers on cameras via our Plus subscription on gopro.com, our expectation is that sell-through in 2020 would be in a range of 2.8 million to 3.2 million cameras. This would represent roughly 70% of our typical demand for the second half, including the holiday season.

Assuming we sell-through at the mid-point of the range in 2020, we expect to exit 2020 with approximately 600,000 to 700,000 units in the channel compared with the 1.4 million units of channel inventory exiting 2019. In addition, assuming we are able to sell-through approximately 600,000 units in the second quarter, we expect to exit the second quarter with approximately 800,000 cameras in the channel, a 20% reduction from the first quarter of 2020.

We expect the shift towards higher-end cameras to continue, thereby increasing ASPs in 2020, and continue to increase in ASP into 2021 primarily due to a higher percentage of our business being on gopro.com. Specifically, we expect second quarter ASP to be approximately \$300, due to seasonally lower accessory attach rates and product mix.



We expect 2020 operating expenses to be between \$285 million to \$290 million for the year and we are targeting approximately \$250 million in 2021. We expect operating expenses to be approximately \$125 million in the 2nd half of 2020. The expected \$100 million in operating expense savings in 2020 are primarily from sales and marketing, general and administrative, and facility expenses. Our commitment to delivering innovative solutions to consumers is unwavering and our product roadmap remains unchanged and on-track.

Specific reductions include:

- Advertising, sponsorships, trade shows, public relations, point-of-purchase displays, activations, retail training and other areas totaling approximately \$50 million;
- Reduction in force and other payroll related reductions totaling approximately \$40 million; and,
- Office space, travel and other related expenses totaling approximately \$10 million.

We are targeting gross margins in our operating model to be in the 38% to 40% range as a result of both new products and a higher proportion of sales and channel mix to be from gopro.com. We expect to be in this range in the second half of 2020 and we believe we can grow margins over 2020 levels in 2021. We expect the revenue mix from gopro.com to increase very significantly over the 10% reported in 2019, to approximately 45% of revenue in 2020, and we expect GoPro.com to represent the majority of revenue by 2021. In addition, a more direct-to-consumer model accelerates cash conversion as sales from gopro.com typically settle in 3 business days, thereby reducing our expected aggregated DSO to a range of 10 to 15 days from historical DSO's of 35 to 40 days.

As Nick mentioned, our subscription offerings will play an increasingly important role in our strategy which will become apparent by the end of Q2. As a result, we continue to expect to grow our Plus subscribers in 2020 and maintain our expected range of between 600,000 to 700,000 subscribers.

On liquidity, we ended the first quarter with cash of \$125 million, including \$30 million from the ABL. Our borrowing base as of March 31, 2020 was approximately \$70 million. We continue to expect our borrowing base to be in a range of \$60 million to \$70 million for the balance of 2020.

We expect to use approximately \$25 million in cash in the second quarter of 2020. We believe the combination of higher sales on gopro.com, improved margins, lower operating expenses and inventory



management would increase cash to more than \$150 million in Q3 and approximately \$200 million in Q4 2020. Given the operating trends outlined above, we expect that our cash would further increase in 2021.

We are extremely proud of the dedication shown by our team during what has been a very challenging time for our company and society as a whole. We believe the decisive actions we've taken to reduce operating expenses and shift to a consumer-direct focused model positions GoPro to succeed during the pandemic and gives us the opportunity to be the most profitable GoPro yet over the long-term.

Thank you for taking the time to read GoPro's Q1 Earnings Report. Nick and I look forward to speaking virtually with investors at the 48th annual J.P. Morgan Global Technology Media and Communications conference on May 13, 2020.