

GoPro's Struggle for Survival in 2016

David L. Turnipseed
University of South Alabama

John E. Gamble
Texas A&M University–Corpus Christi

GoPro was among the best examples of how a company could create a new market based upon product innovations that customers understood and demanded. The company had grown from a humble beginning as a homemade camera tether and plastic case vendor in 2004 to an action camera vendor with \$350,000 in sales in 2005 (its first full year of operation) to a global seller of consumer electronics with revenue of \$1.6 billion in 2015. The company's shares had traded as high as \$98 in October 2014, just months after its initial public offering (IPO) in June 2014. In 2014, GoPro was ranked number one most popular brand on YouTube with more than 640 million views, and an average of 845,000 views daily. In 2015, the average daily views were up to 1.01 million. Abruptly, in the third quarter of 2015, GoPro's magic disappeared and, by the fourth quarter of 2015, its revenues dropped by 31 percent from the prior year. In addition, its net income fell by 128 percent to a net loss of \$34.5 million. By the end of December 2015, the stock traded at less than \$20. A summary of the company's financial performance for 2011 through 2015 is presented in **Exhibit 1**.

EXHIBIT 1

Financial Summary for GoPro, Inc., 2011–2015 (in thousands, except per share amounts)

Consolidated statements of operations data:	2015	2014	2013	2012	2011
Revenue	\$ 1,619,971	\$1,394,205	\$ 985,737	\$ 526,016	\$234,238
Gross profit	673,214	627,235	361,784	227,486	122,555
Gross margin	41.6%	45.0%	36.7%	43.2%	52.3%
Operating income	54,748	187,035	98,703	53,617	38,779
Net income	36,131	128,088	60,578	32,262	24,612
Net income per share:					
Basic	\$0.27	\$1.07	\$0.54	\$0.07	\$0.26
Diluted	\$0.25	\$0.92	\$0.47	\$0.07	\$0.24

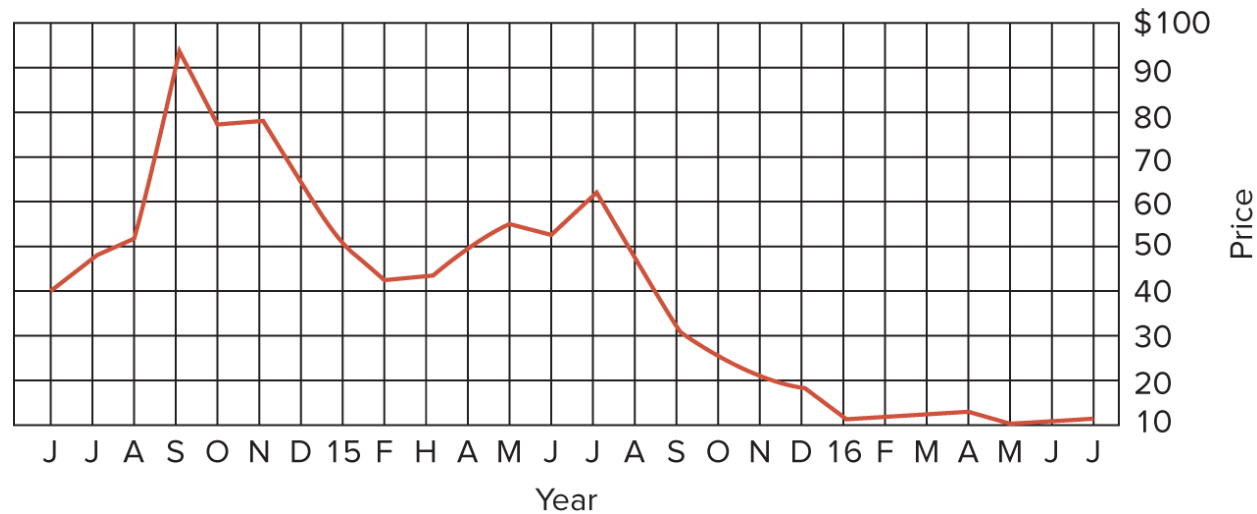
Source: GoPro, Inc. 2015 10-K.

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GoPro's sales continued to slip in 2016. In mid-January, the company's stock was selling at less than the IPO price, and the company laid off 7 percent of its workforce. In early February, GoPro's stock traded below \$10—see **Exhibit 2**. First quarter sales in 2016 were down 50 percent from the first quarter 2015 and 58 percent from the fourth quarter 2015. Net income had fallen from \$16.8 million in the first quarter of 2015, to a loss of \$107.5 million in the same period, 2016. The newly introduced HERO4 camera performed poorly and the company cut its price by half and reduced its product line to three cameras. The Karma camera drone, set for release in the first half of 2016, was inexplicably pushed back to winter, and there was no date for release of the HERO5 action camera. After the first quarter 2016 results were released, GoPro's stock dropped below \$9. According to *Investor Place* (March 28, 2016), GoPro had essentially erased its once coveted title of Wall Street's darling and is now loathed by Wall Street.

EXHIBIT 2

GoPro's Stock Performance, June 2014–July 2016



Although continuing to be the market leader in action camera units sold, GoPro clearly had serious problems in mid-2016. Despite the problems, GoPro's management continued to be upbeat as it attempted to sell its action cameras in the stagnant niche. Its hopes were based on new acquisitions in mobile editing apps; a new sales, distribution, and equity partnership with Red Bull; and hopes for success of the Karma drone. Nick Woodman recognized that the action camera niche was just that—a niche—and it was saturated. The company that had begun as a hardware company began to focus on the Karma drone and software as a means of survival.

COMPANY HISTORY

GoPro began as the result of business failures. GoPro's founder, Nick Woodman, grew up in Silicon Valley, the son of wealthy parents (his father brokered the purchase of Taco Bell by Pepsi). Woodman started an online electronics store, **EmpowerAll.com**, which failed, and subsequently started an online gaming service, Funbug, that failed in the dot-com crash of 2001, costing investors \$3.9 million. Woodman consoled himself after the failure of Funbug with an extended surfing vacation in Indonesia and Australia. While on vacation, he fashioned a wrist strap from a broken surfboard leash and rubber bands to attach a disposable Kodak camera to his wrist while on the water. Woodman's friend and current GoPro creative director, Brad Schmidt, joined the vacation, worked with the camera strap, and observed that Woodman needed a camera that could withstand the sea.

After his vacation, Woodman returned home and focused on developing a comprehensive camera, casing, and strap package for surfers. Originally incorporated as Woodman Labs, the company began doing business in 2004 as GoPro. Woodman found a 35-mm camera made in China that cost \$3.05, and sent his homemade plastic case and \$5,000 to an unknown company, "Hotax." A few months later, Woodman received his renderings and a 3-D model from the company, and sold his first GoPro camera in September 2004, at an action-sports trade show. Also that year, GoPro hired its first employee, Neil Dana, who was Woodman's college roommate.

The two-man company grossed \$350,000 in 2005, the first full year of operation. Woodman wanted to keep the company private as long as possible: he invested \$30,000 personally, his mother contributed \$35,000, and his father added \$200,000. In a fortunate coincidence for GoPro, in fall 2006 Google purchased a then-small company, YouTube, and in spring 2007 the GoPro HERO3 with VGA video was launched. According to Woodman, the competing name-brand cameras available at the time did not have good video quality. The combination of GoPro's HERO3 video quality and the increasing popularity of YouTube caused GoPro's sales to triple in 2007.

In 2007, although the company had revenues in the low seven figures, Woodman began to question his ability to take the firm further. He negotiated a deal to turn the company over to a group of outside investors, but before the deal was finalized (which was at the beginning of the 2008 financial crisis), the investors wanted to lower the valuation of the company. GoPro was profitable, and Woodman did not believe that the company was having any ill effects from the economy. He refused to negotiate the company's value down, and the company's sales were over \$8 million that year. The company's growth continued and in 2010, Best Buy began carrying GoPro products, which was a clear indication that the company was accepted in the market.

In May 2011, GoPro received \$88 million in investments from five venture capital firms (including Steamboat Ventures—Disney's venture capital company) which enabled Woodman, his family, and some GoPro executives to take cash from the

company. Also in 2011, GoPro acquired CineForm, a small company that had developed a proprietary codex that quickly and easily converted digital video files among different formats. CineForm had used this codex in several movies including *Need for Speed* and *Slumdog Millionaire*. As part of GoPro, CineForm altered its 3-D footage tool into an editing program that became the company's first desktop application, GoPro Studio.

In December 2012 a Taiwanese manufacturing company, Foxconn (trading as Hone Hai Precision Industry Co.), bought 8.8 percent of GoPro for \$200 million, which brought the value of the privately held company to about \$2.25 billion, and *Forbes* reported Woodman's personal net worth to be about \$1.73 billion. GoPro sold 2.3 million cameras and grossed \$531 million in 2012; and in December of that year, GoPro replaced Sony as the highest-selling camera brand at Best Buy. Sales of GoPro cameras at snow-sports retailers increased by 50 percent for the 2012–2013 ski season. GoPro almost doubled its revenues in each of three consecutive years, from \$234.2 million in 2011, to \$525 million in 2012, and \$985 million in 2013, according to the U.S. Securities and Exchange Commission (SEC). Although revenues increased 87 percent in 2013 in that year, the decrease in revenue growth became obvious. According to its IPO filing, as of December 2013 the company had not derived any revenue from the distribution of its content on the GoPro Network; however, it announced plans to pursue new streams of revenue from the distribution of GoPro content. GoPro formed a new software division in 2013. Also in that year, the National Academy of Television Arts and Sciences recognized the company with a Technology and Engineering Emmy Award in the Inexpensive Small Rugged HD Camera category.

In June 2014, GoPro went public at an IPO price of \$24.00 which valued the company at \$2.7 billion. The IPO included a lockup agreement that prevented the Woodmans from selling any shares of GoPro stock for six months; four months later on October 2, 2014, the Woodmans made a donation of 5.8 million shares of GoPro stock into the Jill and Nick Woodman Foundation. A press release about the foundation stated that details about its mission would be announced at a later date, according to CNN. Share prices dropped 14 percent after the announcement and angered investors. Also, GoPro failed to meet investors' expectations when it released its first earnings report in August 2014.

GoPro increased emphasis on software and video sharing in 2015. In that year, GoPro tied with Apple on the Google Brand Leaderboard, which measures the most popular brands on YouTube. According to Google, more than 4.6 years of content was uploaded to YouTube in 2015 with GoPro in the title, an increase of 22 percent from 2014. Also in 2015, the company launched the GoPro Channel on Amazon Fire TV and Fire TV Stick with a custom-designed streaming channel that was a one-stop destination for delivering on-demand GoPro videos to Amazon customers.

Another 2015 development was the GoPro Channel on the PlayStation Network which allowed PlayStation owners to stream GoPro content on-demand, and browse GoPro cameras and accessories. PlayStation joined GoPro's growing roster of distribution partners including Amazon Fire TV, Roku, Comcast Watchable, Sky, Vessel Entertainment, Xbox, LG, and

Virgin America. The GoPro Mobile App was downloaded 2.75 million times in the fourth quarter, totaling almost 24 million cumulative downloads; Q4 installs of GoPro Studio totaled nearly 1.7 million, totaling over 15 million cumulative installs, with average daily video exports of over 49,000 in the fourth quarter.

GoPro purchased Kolor, a French company with experience making software for capturing and displaying virtual reality in 2016, and acquired Replay and Splice, two leading mobile video editing apps. Replay was video editing software that GoPro rebranded as Quik, and Splice was an app that promised desktop-level performance for editing video on an iPhone. The Kolor group assisted in the launch of a virtual reality social media platform that functioned both on the web and as an app. According to *The Verge* (June 2, 2016), Woodman understood that “the hardware-first chapter of GoPro” was coming to the end. He recognized that market saturation had created the problem, explaining it as “content guilt.” According to Woodman, “Most people don’t even watch their GoPro footage.” He blamed the company for creating the problem by solving the capture side but leaving customers hanging in postproduction.

In April 2016, the investment bank Piper Jaffray reported that GoPro was gaining market share in a declining market, and that action camera ownership declined to 28 percent among teenage consumers, down from 31 percent a year previous, and 40 percent in 2013. This trend clearly indicated the need for GoPro to transform into something more than an action camera company. The GoPro brand and reputation had been made as a hardware company, and moving that reputation to a new market (i.e., software) would be difficult. Although GoPro created the market for wearable cameras, it found the content-creation software field crowded. Plus, *The Verge* (June 2, 2016) pointed out that the company had no clear way to monetize its software. According to Woodman, building the software team had been the most time-consuming project the company had undertaken. He believed that the benefits of success would be large because the amount of video being consumed was huge, and the market research company NPD Group reported that more than 80 percent of smartphone users stream video. Woodman also believed in the potential of Karma, GoPro’s camera drone, scheduled for release in early 2016.

THE ACTION CAMERA INDUSTRY IN 2014– 2016

Sales in the global action camera industry grew 44 percent in 2014, reaching 7.6 million units, and retail value of \$3.2 billion. Action camera sales were projected to increase from the 5 million units sold in 2013 to 9 million units by 2018. Camera unit sales increased by 38 percent in North America in 2014; however, the largest growth came from the Asia Pacific region, which was up by 114 percent. Although the action camera market was expected to enjoy continued sales growth through at least 2019, several factors, including lengthening replacement cycles, were expected to slow the growth rate.

Consumer sales, primarily for extreme sports, had accounted for the largest part of global demand up to mid-2015, but professional sales, primarily driven by TV production, security, and law enforcement, were expected to increase. In 2014, consumers were responsible for 86 percent of action camera sales, with the remainder coming from professional uses. Although GoPro dominated the action camera industry in mid-2015, there was increased competition from other companies, including Garmin, TomTom, Canon, JVC, Ion America, Polaroid, and Sony. Other competitors were focusing on the adjacent market of wearable cameras for security and police officers.

A defining characteristic of the action camera industry in 2015 was the increase in the number of competitors. In early 2015, the market was experiencing rapid growth and attracted many new entrants, which had the expected effect on price (lower), quality (higher) and features (more). A list of producers of action cameras in February 2015 is presented in **Exhibit 3**.

EXHIBIT 3

Action Camera Producers, February 2015

Key Brands		
Contour Drift Innovation Garmin GoPro	iON Worldwide	
	JVC Kenwood	
	PLR IP (Polaroid)	
	Rollei	
	Sony	
	Veho	
Other Prominent Brands		
	HEDCAMz	Polaroid
	Hitachi	Pyle Audio
Braun Photo Technik	iSAW	RePlay XD
Brinno	JVC	Shimono
Chilli Technology	Liquid Image	Toshiba
Delkin Devices	Mobius Action Cam	Viewu
EyeSee360	Oregon Scientific	VIO POV
Geonaute	Panasonic	Viofo
GoPole	PAPAGO	Xsories

Source: *Wealth and Finance International*, February 2016.

Another 2015 industry trend was price polarization. Sales of low-end camera models priced under \$200.00, and high-end models (including GoPro's \$499.00 HERO4 Black) experienced increasing growth. The action camera industry experienced significant change in early 2015. A Futuresource analyst reported that the 360-degree capture that had recently become available would drive virtual reality applications over the coming months, especially for sports broadcasting. The company envisioned the percentage of 360-degree video action cameras growing from 1 percent in 2015 to 14 percent by 2019. In 2014, 95 percent of action cameras sold could take high-definition video with at least resolution; and approximately 85 percent of action cameras could take HD video in 1080p. About half of cameras sold could record video in ultra-high-definition 2160p, or 4K.

Going into 2016, the action camera industry experienced adjustments in usage: The demand for action cameras for professional applications had grown exponentially due to the focus on better viewing of sports events. Action cameras were increasingly being used for TV production and to record closer details of sports. The National Hockey League and Fishing League Worldwide had signed major contracts with iON, GoPro, and other vendors, and that professional segment of the industry was expected to have a high growth rate. Also, Global Market Insights pointed out increasing popularity of action cameras among all age groups and advanced product features as other factors providing massive growth potential.

The security industry was also finding increasing usage for action cameras going into 2016, which added additional fuel to the industry growth. Action cameras and especially drone-mounted action cameras were expected to be used increasingly in security applications globally. A leading vendor in the action camera-drones, Lifeline Response, had developed a smartphone app that could fly a drone to a needed location in emergencies. According to Technavio Research, professional use of action cameras would exceed casual usage by 2020.

In addition to increased demand for action cameras for professional applications, the industry was expanding also due to demand from developing countries, with the largest growth in the Asia Pacific region. Increasing disposable income, an increase in social networking, and rapid growth in adventure sport tourism were factors increasing sales in emerging countries. Several action camera vendors sponsored extreme sporting events in various emerging economies to promote their camera brands. European growth is predicted to be stable from 2016 to 2023.

The revenue growth rate in the action camera industry is expected to be lower than the growth rate in unit sales, due to a general price decline. The average action camera price is expected to decline to \$226.00 by 2020, depressed primarily by a global increase in supply. In the first quarter, 2016, Technavio forecast that the value, by revenue, of the global action camera industry, which was \$2.35 billion in 2015, would reach about \$6 billion by 2020. However, young consumers were increasingly choosing smartphone cameras over traditional, which meant they were less likely to purchase an action camera.

The popularity of social networking sites was a major driver of the action camera industry in 2016 and price polarization continued as a crucial trend. Vendors began “bundling” their products (cameras and numerous accessories) to increase demand for cameras and accessories. Bundle packaging increased demand by offering cost-effectiveness to customers because the bundling reduced or eliminated the need to purchase additional equipment. Other industry trends in 2016 were increasing numbers of new entrants, which reduced prices, and increasing significance of the smartphone with enhanced quality and features which depressed demand.

THE DRONE INDUSTRY IN 2016

According to the NPD Group, in the 12 months ending April 2016, drone industry sales increased 224 percent year-over-year to nearly \$200 million. Over the six months ending April 2016, drone sales growth accelerated to more than four times greater than the same time period last year. [DroneII.com](#) reported that in 2015, there was more than \$30 million in seed funding raised (more than \$20 million in the United States) for new drone startups and early stage financing. The majority of drones were purchased for video and photography, either for commercial or hobby reasons. The commercial and civilian drone market was expected to grow at a compound annual growth rate of 19 percent between 2015 and 2020 (versus 5 percent growth in military sales).

CNN reported in February 2016 that the two most promising tech industries in 2016 were drones and virtual reality. The drone industry is expected to grow to \$6 billion in sales by 2020, and according to CNN, China was the clear leader, with the world’s largest drone manufacturer, DJI. DJI’s North American market share going into 2016 was 50 percent, and an estimated 70 percent worldwide. Although the commercial drone industry was still young, consolidation and major investments from large industrial conglomerates, defense contractors, and chip companies had begun.

Business Insider reported that several of the prominent early drone manufacturers were emerging from outside the U.S. market. Among the foreign manufacturers were the Canadian firm Aeryon, Switzerland-based senseFly (owned by France-based Parrot), publicly traded Swedish firm CybAero, Shenzhen, China-based DJI, and Korea-based Gryphon.

Drones with 4K cameras accounted for more than 33 percent of dollar sales in the 12 months ending April 2016, and those with GPS provided 64 percent of revenue. Those selling for more than \$500.00 accounted for 56 percent of dollar sales during that period. The average sales price for a drone was more than \$550.00 in April, which gave them one of the highest average retail prices of all technology categories. [Exhibit 4](#) presents the drone industry’s leading brands in dollar sales in April 2016.

EXHIBIT 4

Top-Selling Drone Brands Ranked by Percentage of U.S. Dollar Share, April 2016

Rank	Brand Name
1	DJI
2	Parrot
3	Protocol
4	Yuneec
5	3D Robotics

Source: The NPD Group/Retail Tracking Service, 12 months ending April 2016.

The drone category continued to evolve as new products and features such as 4K cameras, Bluetooth, and built-in GPS revealed an expanding range of usage. The market was maturing and the NPD Group forecast continued interest in drones and increasing sales in 2016 and 2017.

Drones were a popular item in the 2015 holiday season. Sales (by unit) increased 445 percent from the 2014 holiday season. High consumer interest and competitive prices pushed sales for December 2015 up by 273 percent. Consumer research by the NPD Group revealed that even after the 2015 holiday season, drone purchase expectations, especially among younger consumers, remained high, which indicated continued growth and healthy demand. In October 2015, the Federal Aviation Administration (FAA) required registration of drones weighing between 0.55 and 55 pounds by December; however, during that period sales of drones (by dollars) at least doubled month over month.

Although there was growth potential for the drone industry, market leader DJI's scale enabled the company to reduce prices below those of competitors and offer a superior product. The global giant Apple entered into an exclusive contract with DJI to sell its DJI Phantom4 drone. This gave DJI immediate access to the Apple online store and over 400 brick-and-mortar stores. In May 2016 another Chinese company, Xiaomi, which had produced a GoPro HERO "knock-off," the Yi4k, launched a low-cost drone with an action camera selling for \$380.00. The probability of success for a newcomer in the crowded drone industry appeared to be increasingly remote.

GOPRO'S BUSINESS MODEL AND STRATEGY

The action camera industry was a relatively young and evolving industry, and GoPro evolved within the industry. Although the company began as an action camera company, it had rapidly evolved into a diversified lifestyle company. The company's business focus, as set out in its 2015 annual report, was to develop product solutions that enabled consumers to capture, manage, share, and enjoy some of the most important moments in their lives. In addition to selling action cameras to capture live events, the company developed GoPro Entertainment, and planned to diversify into a number of related businesses, including software and drones.

GoPro's diversification and differentiation strategy was ambitious. The GoPro Annual Report, 2015, set out the strategy as follows:

We intend to continue building our existing capture device business while also launching complementary new device categories including unmanned aircraft systems (drones) and devices to enable virtual reality content capturing. In addition, we expect to release new content management, editing and sharing solutions that will provide increased value to our consumers, introduce new revenue streams and further differentiate us from competitors.

The company focused on product leadership and innovation in its cameras, and also in mounts, accessories, and batteries. New products for 2016 included the company's next-generation capture device, the HERO5, the GoPro drone *Karma*, and devices to enable virtual reality content capture. The company increased its focus on solutions designed to simplify organizing, editing, and sharing content, and planned release of a content management platform for 2016—the GoPro for Desktop—which would facilitate offloading, accessing, and editing content.

GoPro's management envisioned the company as an entertainment brand. The distribution of content originally produced by GoPro was referred to as GoPro Entertainment, and the company attempted to leverage the sale of its cameras through GoPro Entertainment. The company continued to invest in GoPro Entertainment by developing, distributing and promoting GoPro Entertainment programming on its own and partner platforms.

Sales Channels

At the end of 2015, GoPro products were sold through direct sales channels in over 100 countries and over 40,000 retail outlets. The company also sold indirectly through its distribution channel. The direct sales channel was shrinking in 2015, providing 53 percent of revenue, compared to 59 percent in 2014. GoPro distributors accounted for the difference, with indirect sales increasing from 41 percent in 2014 to 48 percent in 2015. A small number of distributors and retailers

accounted for a large portion of GoPro's revenue: the 10 largest customers (by revenue) contributed 52, 50, and 51 percent of revenues in fiscal 2015, 2014, and 2013, respectively.

Direct Sales

GoPro sold directly to large and small retailers in the United States, Europe, the Middle East and Africa, and directly to consumers throughout the world through its e-commerce channels. The company believed that diverse direct sales channels were a key differentiator for the company and it segregated its products among those channels. GoPro used independent specialty retailers who generally carried higher-end products, and targeted its customers who were believed to be the early adopters of new technology. Big-box retailers with a national presence such as Amazon, Walmart, Target, and Best Buy were a second component of the direct sales channel. These retailers carried a variety of GoPro products and targeted its particular end user. GoPro felt that this allowed the company to maintain in-store product differentiation between its sales channels and protected its brand image in the specialty retail markets. Amazon accounted for 12 percent of GoPro's total revenues in 2015, and Best Buy accounted for 14 percent (down from 20 percent in 2014). Mid-market retailers with a large regional or national presence were also part of GoPro's direct sales channel. Retailers focusing on sporting goods, consumer electronics, hunting, fishing, and motor sports carried a small subset of GoPro products targeted toward its end users. The full line of GoPro products were sold directly to consumers through the company's online store, **gopro.com**. The company marketed its e-commerce channel through online and offline advertising. GoPro felt that its e-commerce sales provided insight into its customers' shopping behavior and provided a platform from which the company could inform and educate its customers on the GoPro brand, products, and services.

Indirect Sales/Distributors

GoPro sold to over 50 distributors who resold its products to retailers in international markets and to some mid-market vertical retailers in the United States. The company provided a sales support staff to help the distributors with planning product mix, marketing, in-store merchandising, development of marketing materials, order assistance, and education about the GoPro products. During 2015, GoPro converted part of its distributor sales into direct sales.

Merchandising, Marketing, and Advertising

GoPro's merchandising strategy focused on point-of-purchase displays that were provided to retailers at no cost. The POP displays showed GoPro content on a large video monitor, with GoPro's cameras and accessories arranged around the video monitor screen. At the end of 2015, the company had over 25,000 displays in retail outlets. The company's marketing and advertising efforts were focused on consumer engagement by exposing them to GoPro content, believing that this approach enhanced the brand while demonstrating the performance, versatility, and durability of its products. GoPro's

marketing and advertising programs spanned a wide range of consumer interests and attempted to leverage traditional consumer and lifestyle marketing.

Social media were the core of GoPro's consumer marketing. The company's customers captured and shared personal GoPro content on social media platforms such as YouTube, Twitter, Facebook, Pinterest, and Instagram. User-generated content and GoPro originally produced content were integrated into advertising campaigns across billboards, print, television commercials, online, and other home advertising, and at consumer and trade shows. The shared GoPro content was also used to support the in-store marketing on the point-of-purchase displays.

GoPro's lifestyle marketing emphasized expansion of its brand awareness by engaging consumers through relationships with influential athletes, entertainers, brands, and celebrities who used GoPro products to create and share content with their consumers and fans. The company worked directly with its lifestyle partners to create content that was leveraged to their mutual benefit across the GoPro Network.

GoPro's Financial Performance

GoPro's 2015 revenues of \$1.6 billion represented a 16 percent increase over 2014, primarily due to increased sales in Europe, Middle East, Africa, and the Asia Pacific region. Despite the uptrend in revenue, cost of revenue and operating expenses had increased in 2015 as well. Total operating expenses increased from 27 percent of revenue in 2013 to 38 percent of revenue in 2015, which contributed to the steep decline in net income from 2014 to 2015. In addition, GoPro's gross margin and operation margin in fiscal 2015 suffered from a sales volume decrease in the latter part of the year. This was primarily due to the reduction in the price of the HERO4 Session camera and the costs related to the retirement of the HERO entry-level camera. The global increase in hiring, which was an employee cost increase of \$65.7 million or 60 percent, and an increase of \$30.8 million in advertising and promotional costs were the primary drivers of the increase in operating expenses. During fiscal 2015, GoPro shipped 6.6 million capture devices, a 27 percent increase over fiscal 2014. GoPro's Consolidated Statements of Operations for 2013–2015 are presented in **Exhibit 5**. Its balance sheets for 2014 and 2015 are shown in **Exhibit 6**.

EXHIBIT 5**GoPro, Inc. Consolidated Statements of Operations, 2013–2015 (\$ in thousands)**

	Year Ended December 31,					
	2015		2014		2013	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
Revenue	\$1,619,971	100%	\$1,394,205	100%	\$985,737	100%
Cost of revenue	946,757	58	766,970	55	623,953	63
Gross profit	673,214	42	627,235	45	361,784	37
Operating expenses:						
Research and development	241,694	15	151,852	11	73,737	7
Sales and marketing	268,939	17	194,377	14	157,771	16
General and administrative	107,833	7	93,971	7	31,573	4
Total operating expenses	618,466	38	440,200	32	263,081	27
Operating income	54,748	3	187,035	13	98,703	10
Other expense, net	(2,163)	—	(6,060)	—	(7,374)	(1)
Income before income taxes	52,585	3	180,975	13	91,329	9
Income tax expense	16,454	1	52,887	4	30,751	3

EXHIBIT 5

GoPro, Inc. Consolidated Statements of Operations, 2013–2015 (\$ in thousands)

Net income	\$ 36,131	2%	\$ 128,088	9%	\$ 60,578	6%
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Source: GoPro, Inc. 2015 10-K.

(in thousands, except par values)	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 279,672	\$319,929
Marketable securities	194,386	102,327
Accounts receivable, net	145,692	183,992
Inventory	188,232	153,026
Prepaid expenses and other current assets	25,261	63,769
Total current assets	833,243	823,043
Property and equipment, net	70,050	41,556
Intangible assets, net	31,027	2,937
Goodwill	57,095	14,095
Other long-term assets	111,561	36,060
Total assets	\$1,102,976	\$917,691

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 89,989	\$126,240
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Accrued liabilities	192,446	118,507
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Deferred revenue	12,742	14,022
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Total current liabilities	295,177	258,769
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Long-term taxes payable	21,770	13,266
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Other long-term liabilities	13,996	4,452
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Total liabilities	330,943	276,487
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Stockholders' equity:

Preferred stock, \$0.0001 par value, 5,000 shares authorized; none issued	—	—
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Common stock and additional paid-in capital, \$0.0001 par value, 500,000 Class A shares authorized, 100,596 and 52,091 shares issued and outstanding, respectively; 150,000 Class B shares authorized, 36,005 and 77,023 shares issued and outstanding, respectively	663,311	533,000
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Treasury stock, at cost, 1,545 shares and none, respectively	(35,613)	—
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Retained earnings	144,335	108,204
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Total stockholders' equity	772,033	641,204
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Total liabilities and stockholders' equity	\$1,102,976	\$917,691
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GoPro's sales were predominately from the Americas, with Europe, the Middle East, and Africa a distance second—see **Exhibit 7**. Revenue from outside the United States was 52 percent, 43 percent, and 49 percent of the company's revenues for fiscal 2015, 2014, and 2013, respectively, and GoPro expected this portion to continue to be a significant part of revenues. Although there were no clear trends in the composition of sales revenue in the Americas, Europe, the Middle East, and Africa, there was an upward trend of revenue from outside the United States and from the Asia Pacific region. GoPro's supply chain partners had operations in Singapore, China, Czech Republic, the Netherlands, and Brazil. The company intended to expand operations in these, and perhaps other, countries as it increased its international presence.

EXHIBIT 7

GoPro, Inc.'s Revenues by Geographic Region, 2013–2015

	Year Ended December 31,			2015 vs. 2014	2014 vs. 2013
(in thousands)	2015	2014	2013	% Change	% Change
Units shipped	6,584	5,180	3,849	27%	35%
Americas	\$ 868,772	\$ 890,352	\$ 557,285	(2)%	60%
Percentage of revenue	54%	64%	56%		
Europe, Middle East, & Africa	535,260	371,197	322,226	44%	15%
Percentage of revenue	33%	27%	33%		
Asia Pacific region	215,939	132,656	106,226	63%	25%
Percentage of revenue	13%	9%	11%		
Total revenue	\$ 1,619,971	\$ 1,394,205	\$ 985,737	16%	41%

Source: GoPro, Inc. 2015 10-K.

According to NPD market research, in 2015, on a dollar sales basis, GoPro held 6 of the top 10 products, including the number one spot, in the digital camera/camcorder category, and was number one in accessory unit sales with 6 of the top

10 selling accessories. In the fourth quarter 2015, on a unit sales basis, GoPro had 6 of the top 10 action cameras in Europe, including all of the top 5 spots in December. Global sales were more than 50 percent of fiscal 2015 revenue, and combined Asian and European revenue increased 49 percent from 2014. China remained a top 10 market for GoPro in the fourth quarter.

GoPro Product Offerings in Mid-2016

In June 2016, GoPro's action camera offerings comprised three models: HERO4 Black, HERO4 Silver, and HERO Session. The HERO Session had one-button controls, was waterproof to 33 feet without a separate housing, and would automatically capture video and photos right-side-up even if mounted upside down. The HERO Session was small, the lightest of all GoPro cameras, and could record up to two hours on a charged battery. The Session sold for \$199.99 in mid-2016.

The HERO4 Silver could capture HD video and photos, had a built-in touchscreen display to control the camera and play back shots, and enabled built-in video trimming. A characteristic of the HERO4 Silver was professional quality video and customizable settings for color, sharpness, exposure, white balance, and ISO (sensitivity to light). Other features included built-in Wi-Fi and Bluetooth, waterproof to 130 feet, time-lapse exposure for after-dark usage, a wide-angle lens, automatic adjustment to low-light conditions, and a new audio system with high-fidelity sound. The HERO4 Silver sold for \$399.99.

GoPro's HERO4 Black was advertised as professional quality and the company's most advanced camera. The HERO4 Black had a processor two times more powerful than its predecessor and shot video at twice the frame rate with better image quality. The camera had time-lapse capability, built-in Wi-Fi and Bluetooth, a smart remote that allowed multiple camera control up to 600 feet, enhanced low-light capability, and could capture high-fidelity sound. The HERO4 Black sold for \$499.99.

GoPro advertised and offered "pre-orders" for its Omni virtual reality system, which operated with six cameras. Video footage from the cameras could be put together to create a 360-degree video. The Omni was priced at \$4,999.00 (which included six HERO4 Black cameras): A purchaser's credit card would be authorized upon order, but would not be charged until the Omni was shipped.

PROFILES OF LEFTGOPRO'S MAJOR COMPETITORS IN 2016

TomTom

TomTom, a Dutch company known for its GPS navigation systems, entered the action camera market in early 2015 with its Bandit camera. The Bandit had a wide-angle lens, a removable battery, and could operate up to three hours on a fully charged battery. Bandit users could wear a TomTom Multi-Sport Cardio GPS Watch and the Bandit camera could detect and tag exciting moments based on heart rate. Built-in motion and GPS sensors also enabled the Bandit to automatically find and tag exciting moments based on altitude, speed, G-forces, and acceleration. Footage could be processed on the camera without downloading, which made the editing process much faster and easier. The Bandit's battery and card reader were integrated into a USB stick, and the battery could be charged while video files were being downloaded. The Bandit sold for about \$300.00.

ActiveOn

ActiveOn, founded in 2004, joined the field of action camera manufacturers with a small and inexpensive model—the ActiveOn CX, which sold for \$119.99 in early 2016. This camera fit into the palm of the hand and could record high-definition video. The small camera offered several features not available in the lower line GoPros such as a 2-inch LCD viewfinder and an interchangeable battery that provided two hours of recording time per charge. The ActiveOn CX had an adjustable lens that could be set for sports, nighttime, and underwater photography. In September 2015, ActiveOn became the official camera of Cirque du Soleil.

ActiveOn brought a new dimension to action camera with its ActiveOn Solar X, released in early 2016. The emphasis on action camera development had been in connectivity and recording quality: battery life was maximized at 90 minutes to two hours. The Solar X offered two hours of operation with the built-in battery, and add-on solar panels that could provide an additional four hours of recording. ActiveOn developed a fast charging system, "Burst Speed Charging," that could charge the battery to 80 percent in 30 minutes or to 100 percent in an hour. The Solar X was priced at \$450.00.

Ricoh

Ricoh's latest action camera model, the WG-M2, offered a tough body that was freezeproof, shockproof, and did not need an extra case to go underwater. The camera had an ultra-wide viewing angle of 204 degrees (versus the average action camera angle of about 135 degrees), and a very high-speed recording rate which allows more data per frame and thus a more vivid picture. The WG-M2 had a stereo mic, a shake reduction feature, large controls that can be operated while wearing gloves, and could take time-lapse and slow-motion videos. The WG-M2 was priced at \$299.95.

360fly

The 360fly was an action camera that took 360-degree video and enabled the operator to edit, enhance, and share the content from a smartphone to social media. A smartphone with the 360fly app controlled the camera. The app served as the camera's viewfinder, controller, and editor. A new-generation 4K 360fly camera was introduced in 2016, which was water resistant, with a single lens 360-degree video camera with live streaming and intuitive filming and editing advancements. 360fly was attempting to bring virtual reality to consumers.

360fly was also developing a 360-degree drone. Although the company had not announced the launch date for the drone, there was speculation that it could beat the GoPro Karma to the market. Priced at \$399.99, the 360fly was carried at Best Buy and specialty retailers.

Sony

Sony entered the action camera market with a high-quality lineup. The Sony X1000V was a 4K camera with a 170 wide-angle lens and professional quality output. The camera recorded at a high rate to give better resolution and better low-light pictures. Sony's HDR-AS100V POV action camera produced high-definition video and still images, and included built-in GPS that could add speed, location, and trail information on the video. There was a built-in stereo mic, a high-speed data transfer to capture fast action, HDMI output for sharing video on TVs, steady-shot stabilization to digitally compensate for the motion of bicycles or motorcycles, and wireless uploading to smartphones or tablets. The HDR-AS100V POV camera was priced at \$189.00 and was listed as top-rated model in *PC Magazine's* Best Action Cameras of 2016.

Nikon

Camera giant Nikon announced in January that it was entering the action camera market. The company's first in its line of action cameras was the KeyMission 360, which recorded 360-degree video in 4K ultra-high-definition. The camera was dust, shock, and temperature resistant, waterproof to 100 feet, and included electronic vibration reduction to help produce sharp video. *Technowize* reported that the KeyMission 360 had the best audio quality of any action camera on the market. The KeyMission 360 was the “parent” camera in Nikon's family of action camera. The KeyMission 360 was expected to be released in late summer 2016 at a price of about \$450.00.

Garmin International

Garmin International was far better known as a global leader in GPS navigation than for its action cameras; however, in September 2013 the company released its first action camera, the VIRB. The VIRB had a color display and was manufactured in a waterproof housing so an extra protective case was unnecessary. The success of the VIRB led to two new Garmin action cameras in 2015, the VIRB X and the VIRB XE. Both models had GPS, Wi-Fi, and full sensor support. The new models had support for Bluetooth data streams which allowed the use of a microphone to narrate action in real time, plus a Garmin app that enabled transfer of video and photos from the camera to a smartphone and then to social media. Gauges such as altitude and speed could be applied to the video. The VIRB X and VIRB XE were priced at \$299.00 and \$399.00, respectively. By early 2016 the VIRB Elite could be purchased for \$237.00 at Best Buy.

Kodak

Kodak's PixPro SP1, priced at \$162.99, was included in *PC Magazine*'s Best Action Cameras of 2016. The PixPro had a waterproof case, produced high-quality video, could withstand drops from 6 feet, had an integrated display for framing shots, stereo microphones, image stabilization, a zoom lens, and built-in Wi-Fi, and could be paired with iOS and Android smartphones. The PixPro sold for \$299.00.

iONWorldwide

iONWorldwide produced a range of cameras from automobile dash cameras to home monitors to action cameras. Its action camera, the iON Air Pro, was an HD video camera that was waterproof to 30 feet with no additional case. The Air Pro had a 170-degree field of view, low-light sensitivity, one-touch recording capability, and could connect to a smartphone or table through an iON app, which allowed the user to share content to social feeds in real time. Purchasers of the Air Pro camera received 10 GB of cloud storage free. The Air Pro had a long battery life of 2.5 continuous recording hours. The iON Air Pro 3 was available on Amazon for \$135.00.

Polaroid

Polaroid entered the action camera market in September 2012 with a line of three low-priced cameras manufactured by C&A Marketing (a Polaroid license), but sold under the Polaroid name. The first Polaroid action cameras were the XS7, priced at \$69.00; the XS20, priced at \$99.00; and the XS100, priced at \$199.00. Page C-195 Polaroid then introduced three additional models in 2014. The Polaroid XS100i had a 170-degree wide-angle lens and integrated Wi-Fi for media capture with iOS and Android smartphones. The XS100i sold for \$179.00. The XS1000i, which was intended to be a professional quality camera with Wi-Fi, high-definition video, anti-shake and gyro systems, and simultaneous still and video capability, sold for \$179.99.

The Polaroid CUBE was added to the Polaroid action camera line in mid-2014. *PC Magazine*'s Best Action Cameras of 2016 included the Polaroid CUBE as a top-rated model. Polaroid's action camera line in the first quarter of 2016 included the CUBE XS100 Extreme Edition. The CUBE suggested retail price was \$99.99, and *PC Magazine*'s Best Action Cameras of 2016 included the Polaroid CUBE as a top-rated model. Polaroid upgraded the CUBE to the CUBE+ which included Wi-Fi, image stabilization, and an 8 megapixel still capture feature. The CUBE+ was splash-resistant, shockproof, and included a microphone; numerous mountings were available for applications ranging from bikes to helmets to dogs. The CUBE+ could stream footage in real time and was compatible with both iOS and Android. A Wi-Fi enabled CUBE+ could pair with a smartphone for real-time view controls and shot framing. There was one control on the CUBE+ for on-off and to switch from video to still. The CUBE+ was priced at \$149.99.

The Collapse of GoPro's Financial Performance

GoPro's expected sales for the fourth quarter of 2015 were \$511 million. However, actual sales were \$436 million, representing a 31 percent drop year-over-year. Fourth quarter sales were negatively affected by the poor market acceptance of the HERO4 camera. Retailers cut prices on the HERO4 and the company announced the end of the entry-

level HERO. The results of the product realignment were charges of about \$57 million to revenue, and the company expected sales revenue to drop by over 50 percent in the first quarter of 2016.

Compounding the company's financial problems was its increasing costs. Even though fourth quarter 2015 sales were down 31 percent from the same period the prior year, costs of revenue decreased only 7 percent. Consequently, gross profit dropped by 58 percent from the fourth quarter 2015, resulting in a fourth quarter 2015 operating loss of \$41.3 million. Net loss for the fourth quarter of 2015 was \$34.5 million. After the fourth quarter results were released, after-hours trading in GoPro stock was halted. When trading resumed, share prices fell 21 percent. GoPro's market value after release of the earnings report was about \$1.25 billion, according to *Time* (February 4, 2016), which was about 10 percent of its peak value.

GoPro faced further problems in 2015 as the manufacturer of Polaroid's CUBE action camera, C&A Marketing, sued GoPro for patent violation. The suit alleges that GoPro infringed on C&A Marketing's patent for its Polaroid CUBE which was almost two years old when GoPro released its HERO4 Session. C&A Marketing asked for a halt on all GoPro HERO4 Session cameras, plus monetary damages, and all of GoPro's profit on the camera.

GoPro's management provided warning guidance for investors for the first quarter and full year of 2016, which indicated the seriousness of the sales and earnings downturn. First quarter sales were forecast to be less than first quarter 2015 sales and full year 2016 revenue was forecast to be less than 2015. The gross margin was expected to be down and EBITDA (earnings before interest, taxes, depreciation and amortization) was expected to be a \$95 million loss.

GoPro's Performance in Mid-2016

During 2016, GoPro announced plans to reduce its product line back to three models, and introduce the company's Karma drone (which would record 4K video footage) and a new video editing system to enable users to make good video edits in minutes. The GoPro Channel launched SkyQ, a next-generation home entertainment system in early 2016. GoPro videos became available on two of the globe's largest TV platforms—Comcast in the United States and Sky, with 21 million customers in Austria, Italy, the UK, Germany, and Ireland. Despite these positive signs of market acceptance of GoPro video, there was no money directly produced.

January 2016 was particularly difficult for GoPro. Apple received a patent for a remote-controlled camera system, and Sony introduced a new high-resolution camera. Also in January, the company cut its workforce by 7 percent, which would cost the company \$5–10 million in severance costs. GoPro announced that the company would stop offering any future quarterly guidance, and that its CFO, Jack Lazar, would leave the company in March 2016.

The company beat sales expectations slightly in the first quarter 2016; however, gross revenue was down 50 percent from the first quarter 2015 and gross margin Page C-196 of 32.5 percent was below expectations of 36 percent. The negative operating income (\$121,435 million) for the first quarter of 2016 was 645 percent below the same period the prior year and the net loss (\$107,459 million) was 742 percent below the prior year.

GoPro was faced with increasing competition from major competitors, including Samsung, Nikon, Canon, and Sony Corp. *InvestorPlace* reported on April 12, 2016, that Apple and Under Armour were rumored to be entering the increasingly crowded market, and Amazon was selling a GoPro alternative with a 4.4/5 rating for \$91.00. A recent startup company, Sioeye, developed the first action camera that linked directly to the web and allowed real-time video sharing, without requiring a smartphone connection. Selling for \$429.00, the Sioeye camera was Wi-Fi and 4G LTE connectivity enabled and the user could live-stream and narrate adventures to followers without the necessity of uploads.

Although GoPro had scheduled its Karma drone for a mid-2016 release, in May 2016 the company abruptly announced that Karma's introduction was pushed back to the holiday season. Postponing the drone release gave the established drone vendors such as Parrot, 3D Robotics, and DJI more time to solidify their positions as market leaders. The release of its new core product—the HERO5—was not expected to be released until October 2016, and the last new product, the HERO4 Session, was not a market success.

GoPro's first quarter 2016 financial results illustrated the continuation and exacerbation of the nose dive that had begun in the fourth quarter of 2015. Gross revenue was down by 50 percent, operating income was down by 645 percent, and net income decreased by 742 percent from the same period in 2015.

Despite the crash in sales, and profit, GoPro was the undisputed market leader in action cameras, with 85 percent market share according to the company's management. Although GoPro was still the market leader in action cameras, there was no obvious choice among the paths being considered for the company to reverse its decline and reestablish profitability. Rather than concentrate on new hardware to sell in the saturated action camera market, enter the crowded drone market, or develop software that does not provide profit, Woodman's options could be limited to thinking of GoPro as an attractive acquisition by a larger company.

EXHIBIT 8

GoPro, Inc. Statement of Operations, First Quarter 2015 versus First Quarter 2016 (\$ in thousands, except per share amounts)

Three Months Ended March 31,	2016	2015	% Change
Revenue	\$ 183,536	\$ 363,109	(49.5)%
Gross margin			
GAAP	32.5%	45.1%	(1,260) bps
Non-GAAP	33.0%	45.2%	(1,220) bps
Operating income (loss)			
GAAP	(21,435)	22,268	(645.3)%
Non-GAAP	(96,798)	49,111	(297.1)%
Net income (loss)			
GAAP	(107,459)	16,752	(741.5)%
Non-GAAP	(86,740)	35,619	(343.5)%
Diluted net income (loss) per share			
GAAP	(0.78)	0.11	(809.1)%
Non-GAAP	(0.63)	0.24	(362.5)%
Adjusted EBITDA	(86,771)	56,507	(253.6)%

Source: GoPro 10-Q, May 5, 2016.