



June 22, 2020

Nicholas D. Woodman  
Chief Executive Officer and Chairman of the Board of Directors  
Kenneth Goldman  
Lead Independent Director  
GoPro, Inc.  
3000 Clearview Way  
San Mateo, California 94402

Cc: Board of Directors (the “Board”) of GoPro, Inc. (the “Company” or “GoPro”)

Dear Messrs. Woodman and Goldman:

As you are aware, we have been trying to have a productive direct dialogue with you and the Board for nearly four months. We would have preferred to communicate the key points of this letter via a direct dialogue but, unfortunately, our attempts to have such an exchange of ideas have been met with emails designed to delay and deflect such shareholder engagement. Your failure to engage in any meaningful dialogue compels us to write another open letter to you and the Board.

In our prior letter, dated February 20, 2020, under the heading, “Valuation,” we briefly described why, based upon an relative valuation comparing the Company with its peer group, GoPro would be worth in excess of \$1.315 billion or \$9.49 per share (base case) and \$14.97 per share (realistic case) to a strategic buyer and why the Board should pursue a sale of the Company in order to unlock value for the benefit of all stakeholders. We welcomed your announcement during your last earnings call (a clarity on operational strategy which we perhaps inspired) regarding your shift to selling more product directly to consumers via gopro.com, as opposed to prioritizing brick-and-mortar retail stores, which will hopefully ameliorate our concerns regarding the Company’s gross margin and should directly improve the bottom line. This strategy appears to be gaining strength, as supported by your May 29, 2020 announcement of record sales for the 4-day Memorial Day weekend. Your streamlined sales channel, the software subscription services, and additional advancements in your product offering, reinforces our valuation analysis as to the potential for GoPro’s value as an enterprise.

However, you have failed to address our concerns regarding Corporate Governance and the Company’s dual class equity structure, insider selling (although we will give credit to the two directors who actually bought shares after our previous letter, which was the first time any insider actually bought stock in the open market in the Company’s history), and exploring strategic alternatives, including a sale to GoPro to a strategic buyer.

While we are disappointed with the corporate governance and firmly believe the dual class equity structure should be collapsed, we are quite optimistic about the Company’s future, due to the following:

#### **Optimistic**

- GoPro is one of the few consumer discretionary companies that didn’t need to raise any new debt or equity and, as per the Company’s earnings conference call for the first quarter of 2020, should end the third quarter of 2020 with \$150m in cash and the fourth quarter of 2020 with \$200m.

- GoPro is pivoting from prioritizing sales in brick-and-mortar retail stores to prioritizing direct sales to consumers. The Company ended 2019 with 10% of their sales via gopro.com and recently published guidance indicating that the Company would end its fiscal year 2020 at 45% and also indicated that direct sales would constitute the majority of its sales by 2021.
- GoPro has been successful at adding subscribers, with 355,000 paying subscriptions as of the end of the first quarter of 2020 with the goal of 1,000,000 paying subscriptions by year-end.
- GoPro has indicated that it plans to enhance its photo-sharing app, addressing some of the many pain points for consumers, in furtherance of their pivot towards the prioritization of direct sales to consumers.
- The “GoPro” brand is ubiquitous and the change in strategy to prioritize direct sales to consumers and add more services will allow the Company to significantly expand gross margins. In the near term, the Company has indicated that gross margins would expand to 38-40% for 2020 (up ~3-500bp) and accelerate in 2021.
- Strategy pivot will create a razor, razor blade model and should allow the current multiple to expand. The business has been de-risked with a lower break-even due to the margin expansion and the significant cost reductions.
- The future earnings potential is well north of \$100m in EBITDA and furthers our view that the stock is significantly undervalued.

We previously discussed our view that many potential acquirers would be interested in purchasing GoPro at levels between ~\$10-15 per share. With the new strategy shift, we believe those numbers could be materially higher.

Thus, the stock at \$4.62 is at a material discount to its intrinsic value. We believe the Company has a credibility discount which is affecting the Company’s share price and we further believe that collapsing the dual class equity structure into a single class of common stock would significantly minimize this discount and would bring the share price to levels that reflect its true intrinsic value.

## Corporate Governance

As stated in our previous email correspondence, we have become increasingly concerned with the Company’s corporate governance structure and its adverse impacts on the Company’s operations and the financial performance of GoPro’s stock. Specifically, we are concerned that the Company’s share price trades at a discount due to the perpetual dual-class nature of GoPro’s common stock. Several influential institutions and individuals (including SEC Commissioner Robert Jackson Jr.) have concluded that companies with dual-class stock structures tend to underperform companies with a single class of common stock. Links to a few key studies are listed below, including a study conducted by Commissioner Jackson, which concludes that, on average, companies with perpetual dual-class stock trade at a significant discount to companies that have a sunset provision on their dual-class stock structure:

- SEC Commissioner Robert Jackson Jr.: Perpetual Dual-Class Stock: The Case Against Corporate Royalty, available at <https://www.sec.gov/news/speech/perpetual-dual-class-stock-case-against-corporate-royalty>
- Lucian Bebchuk & Kobi Kastiel, The Untenable Case for Perpetual Dual-Class Stock, 103 Va. L. Rev. 585, 604-606 (2017), available at <https://www.jstor.org/stable/26400252?seq=1>

As you are hopefully well aware, several key stock indices (including flagship indices like the S&P 500) have blanket prohibitions on eligibility for companies who have dual-class stock, like GoPro. The concern specifically relates to the fact that dual-class stock structures leave investors with little to no say in significant corporate decisions and corporate governance matters. For example, the S&P 500 has stated that “companies with multiple

share class structures tend to have corporate governance structures that treat different shareholder classes unequally with respect to voting rights and other governance issues.”

To that end, I am reiterating a request that I shared with Mr. Woodman via email in March that the Board provide us with summaries of any investigations and/or analyses that the Board has conducted, or has caused the Company’s advisors to conduct, with respect to maintaining the dual-class stock structure, including investigations regarding the impact thereof on the price of the Company’s common stock.

### **Insider Sales and FIRST EVER insider PURCHASES**

With the exception of Messrs. Ahmed Taylor and Lanzone on February 28, 2020; as stated in our previous letter (dated February 20,2020), not a single GoPro director or insider has bought a share of stock since the Company’s IPO in 2014. Instead, shareholders and your employees, who receive a significant portion of their compensation in the form of stock options, have had to sit by while Mr. Woodman sold over \$520 million worth of stock at prices ranging from \$72.38 to as low as \$5.41. Does the Board believe in the future of the Company? Mr. Woodman, who is the holder of the super majority Class B shares, continues to sell shares.

### **Sell the Company**

We continue to believe that GoPro is still relevant and will continue to be so. The GoPro community itself is valuable. GoPro has created something special: a lifestyle brand, a community that shares a common interest in sports and more importantly, living life. A strategic buyer can help solidify and build upon your legacy. We strongly recommend immediately commencing a process to engage a financial advisor to explore strategic alternatives, including pursuing a sale of the Company. As stated above, we believe there are potential strategic acquirers for the Company that could achieve significant synergies from an acquisition. If the Board is willing to commit to conduct an open and fair auction process, we anticipate that the Company can be sold at a significant premium from where GoPro’s stock is trading today.

### **Conclusion**

As the Board, you have a fiduciary responsibility to take action to increase shareholder value. Clearly your development team is delivering. Your financials show that customers are responding. However, the Board’s failure to act or publicly address legitimate concerns of shareholders is irresponsible.

We are asking you to publicly address the dual class equity structure. If there is a legitimate reason to keep it, and or you have a legitimate reason it helps shareholder value, we will be silent on this issue. As far as insider selling and buying, your actions will speak louder than any words. As for our suggestion that you sell the Company, show us your plan to garner a greater value by the public markets than a strategic buyer would currently pay; and we will be silent on that issue as well.

We, and all shareholders, look forward to hearing from you.

Sincerely,

Kenny Orr  
CEO and Chief Investment Officer

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