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Alphabet – Fitbit Acquisition:

Cannot build it? Just buy it.

Case Study and Teaching Note

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Abstract

This business case focuses on the M&A process and all the topics that come along with it, by analysing from a practical point of view the acquisition of the wearables high-tech company Fitbit Inc. by the tech giant Alphabet Inc. Such case has the aim to provide in particular a deep understanding of this acquisition, and more in general about all the considerations that have to be made in M&As within the technology sector, and it provides an overview under a strategic, financial, and methodological point of view.

Keywords: Merger & Acquisition, Synergies, Smartwatch.

Introduction

Before the end of 2019 a major acquisition deal in the tech industry was announced, and it involved the Silicon Valley-based smartwatches manufacturer Fitbit Inc being acquired by the tech giant Alphabet Inc. The deal was officially made public on November 01, 2019, but rumours were already out since early October 2019, when Fitbit stock price started to see steep increases in a manner of just a few days. Such acquisition will bring a new major player in the broad wearable devices industry with financial resources and specialized know-how that will make the current competitors such as Apple and Samsung feel higher pressure. The question is whether Alphabet will be able to efficiently integrate Fitbit's technology and know-how with its own resources in order to achieve a strong competitive advantage? Will Alphabet's management team be conscious of what the future potential of such acquisition could bring and be able to fully extrapolate and exploit the benefits coming from it? Will Fitbit's devices gain market share or will end up losing it to its competitors? Only the time will show the answer, but this will depend upon the ability of Alphabet to effectively and efficiently integrating Fitbit within its business and to fully give off the synergies that the acquisition could generate.

As well as, such acquisition could be worth the price paid if Alphabet will be able to fully generate synergies, identify trends that wearables will create within the healthcare industry and gain a relevant position in this field by betting on Fitbit's products, brand, partnerships, innovations, and all other features it can offer.

The Smartwatch Market

The smartwatch market, part of the broader wearable devices market, represents the new trend in the digital market, and rapid advancements in the Integrated Circuits are expected to propel further growth in the market in the near future. According to a report issued by ResearchAndMarkets.comⁱ in December 2019, the smartwatches market was valued at \$ 48.14 billion in 2018 and is expected to reach a market value of \$ 130.55 billion by 2024, by increasing at a CAGR of 18.23% during the forecast period 2019-2024.

The main drivers for growth are increasing demand from sport people and athletes for wireless sports and fitness devices that can be synchronized with smartphones; increasing health awareness among customers, who can use smartwatches to take the required precautions in advance by consulting doctors and easily monitor their health parameters; and entrance of a large number of manufacturers along with ongoing technological advancements. Innovative features such as tracking, alerts, GPS, and connectivity in smartwatches have lately caught consumers' interest. Also, the integration of IoT (Internet of Things) is expected to increase the capability of smartwatches to serve the purpose of multiple apps and devices, and to allow smartwatches to interact with other IoT devices to vastly improve a user's quality of life. On the other side, some major constraints that can limit growth in the coming years could be lack of awareness about the utility of smartwatches, high costs, and absence of proper IT infrastructure.

The global smartwatch market can be segmented by product as extension, standalone, and classic; by application as personal assistance, medical, sports, and others; by operating systems as WatchOS, WearOS/Android, TizenOS, and others; and by region as North America, Europe, APAC (Asia-Pacific), and LAMEA (Latin America, and Middle-East & Africa)ⁱⁱ. The standalone segment accounts for the largest market share within the global smartwatch market due to features such as virtual sim card acceptance, wireless operations, and access to the internet. Key players operating in the fragmented global smartwatch market are Apple, in a leading position with 6.8 million of units sold worldwide, accounting for approx. 48% market share in Q3 2019, followed by Samsung, Fitbit, and others (Fossil, Garmin, Lenovo, LG, Huawei) (**Exhibit 1**)^{vi}. The largest and fastest growing geographical market is North America due to recent innovations in smartwatch products and technological applications. Also, the elevated numbers of obese and overweight population in North America is leading the increase in the adoption of smartwatches to monitor health parameters. Europe and APAC follow North America in leading a dominant market share due to the rise of disposable income, urbanization and industrialization. The Middle-East & Africa is expected to achieve a steep growth rateⁱⁱⁱ. Since smartwatches are similar to mobile phone devices with a touchscreen display, more and more people are using these watches instead of traditional watches. Several manufacturers are adding the “healthcare factor” to differentiate smartwatches from smartphones in terms of operations and to overcome customers’ resistance to adopting such product. Furthermore, increased adoption of smartphones coupled with fast internet connectivity and important investment by governments to build smart cities is likely to stimulate the growth of the global smartwatch market in the coming years^{iv}.

As reported by Steven Waltzer, senior analyst at Strategic Analytics, “Global smartwatch shipments grew an impressive 42% annually from 10.0 million units in Q3 2018 to 14.2 million

in Q3 2019. Smartwatches growth continues to soar, as consumers increasingly accessorize their smartphones with fitness-led and health-focused wearables^v.

Alphabet And The Smartwatch Market

Alphabet is a company with over \$161 billion in annual revenue in 2019 alone, from different sources and businesses, primary from advertising (**Exhibit 2**), and with over \$232 billion of assets and liabilities (**Exhibit 3.a, 3.b, 3.c, 3.d**). Alphabet Inc., or best known as Google, is a multinational conglomerate established in 1995 in Mountain View, California. Alphabet can be seen as a collection of companies, the largest of which is Google, and represents the world's fourth-largest technology company by revenue and one of the world's most valuable companies. Through its several businesses, such as Google Maps, YouTube, Chrome, and Android, it has over a billion users. The main source of revenue for Alphabet comes from Google's advertisement segment, with other revenues coming from Cloud, Search, and other. Alphabet is a revolutionary company in constant search for internet innovations; indeed, the conglomerate invests at the scale of the opportunities and resources that it individuates as such^{vi}. Back in 2012, Alphabet entered the smartwatches market with its own operating system WearOS (previously called Android Wear), which had the aim to replicate the Android model with watches: meaning distributing its free software WearOS in order to be adopted by other smartwatch companies as operating system for their devices. In the beginning companies such as Samsung, LG, and Motorola adopted Alphabet's software, but shortly after this plan did not go well as expected. It ended up being a failure: such integration model did not pan out, and the vision of Alphabet's ecosystem did not develop as it did for Android phones, therefore there was no incentive for component makers to support smartwatches. After that, companies such as Samsung started to develop their own operating system for their smartwatches, which led to an increasing visibility and expansion in market share.^{vii}

As an effort to stay competitive in the smartwatch market, in early 2019 Alphabet acquired Fossil's technology for \$40 million^{viii}, in order to improve it and supply the watch company with the operating system behind their smartwatches. The Alphabet's \$40 million Fossil deal was aimed to acquire hybrid smartwatch tech, research and development team, and engineering team^{ix}. Such strategic move was executed in order to develop Alphabet's own dedicated team with hardware experience working on its WearOS software platform and potentially on new smartwatch designs as well. Indeed, Alphabet ended up using Fossil's hybrid smartwatch technology on its own products.

As of late 2019, Alphabet still does not have its own hardware for WearOS, and Alphabet's software still represents a relatively small player in the smartwatch game, with Apple, Samsung, and Fitbit accounting for over 88% of US smartwatch sales in 2019^x, according to a report from NPD Group^{xi}, and over 70% global market share, according to Strategy Analytics^{xii}.

Moreover, the problem for Alphabet is that its partners in this market are not growing fast enough nor do they control meaningful market share. In Q3 2019, Apple Watch hold 48% of worldwide sales market share up from 45% in the previous year. Samsung, with its Gear line of watches built on Tizen operating system, hold the second position with 13.4%. While Fitbit commanded 11.3% market share in Q3 2019, down from the 15% registered in Q3 2018. Alphabet's WearOS partners can be found in the "other category", where the largest of these device makers is Fossil Group with 4.1% share in Q3 2019, down from 4.3% in Q3 2018, according to Strategy Analytics (**Exhibit 1**)^{xix}. The trend lines threaten to make WearOS irrelevant in the coming years, if no action is taken by Alphabet to compete more efficiently with Apple and Samsung^{xiii}.

Fitbit Overview

Company Story

Fitbit Inc. was founded in early 2007 by James Park (CEO) and Eric Friedman (CTO), whom in just 10 years transformed a hardware startup into a worldwide recognized tech company. Being a pioneer in manufacturing health and fitness trackers, Fitbit has been able to create a fitness trend around the world, becoming a \$4 billion company. The smartwatch company's CEO James Park in an interview commented on Fitbit's success: "It was the right product at the right time at the right price point". However, Fitbit did not become a successful company right away, but went through the risk of going bankrupt seven times.

Fitbit launched its first tracker towards the end of 2009, and sold out on the first day of pre-orders, setting a very profitable margin. Since then, Fitbit has continuously developed innovative products, raised capital through multiple funding rounds, and acquired other smaller companies to strengthen its position in the market^{xiv}.

Company profile

Fitbit Inc. is a provider of fitness and health devices, which combines these devices with mobile applications and software dashboard, data analytics, motivational and social tools, personalized insights and virtual coaching through interactive workouts and customized fitness plans for each user. Fitbit's latest smartwatch is the Fitbit Versa 2 (**Exhibit 4**), with a starting price of \$199.95 (compared to Apple Watch Series 5 at \$399 and Samsung Galaxy Watch 46mm at \$349.99). The Fitbit Versa 2 includes Amazon Alexa built-in, 24/7 heart rate tracking, sleep tracking, Spotify, Fitbit Pay, headphones wireless connection, 6+ day battery life, and more among other smart, exercise, design style, and health features^{xv}.

In addition, the company offers various other fitness devices, including Fitbit Zip, Fitbit One, Fitbit Flex, Fitbit Flex 2, Fitbit Charge, Fitbit Charge 2, Fitbit Blaze, Fitbit Charge HR, Fitbit Surge, Fitbit Accessories and Aria^{xvi}. The trackers can be synced to smartphones via bluetooth,

and users have the ability to log their food, activities, and weight, to track over time, and they can set goals with a daily or weekly periodicity for themselves regarding steps, calories burned and consumed, and distance walked. Furthermore, the Fitbit app can be used without a tracker for count calories on a lifestyle app, and it also offers a community page where users can challenge themselves and compete against each other. Therefore, Fitbit's app incorporates a social element for stimulating the use and for spreading the word among users^{xvii}.

What Worked for Fitbit

Despite all initial struggles, controversies, and legal issues, Fitbit has been able to secure a unique place in the wearable industry by experimenting several innovative strategies. Fitbit went from increasing awareness about fitness to installing a sense of competition among people in order to make fitness a social experience, thanks to a combination of marketing savvy and compelling software such as its apps and desktop dashboard, which allow users to connect and compete with each other.

Moreover, Fitbit implemented corporate wellness and workplace wellness programs, which determined an increase in brand awareness through word-of-mouth marketing (representing for Fitbit the main marketing model adopted). It also partnered with health-focused companies and hunger relief organizations, creating programs where Fitbit users could exchange calories burned for food to be donated to such organizations (e.g., Feeding America – FitForFood program, 2015)^{xiv}. Finally, the initial strategy of partnering with Best Buy for the distribution of Fitbit's products was a wise move, because it is now present in over 30.000 stores in 28 countries, and to build up by itself such an impressive distribution channel otherwise it would have taken years for a startup alone offering a new category of products^{xviii}.

Financials

According to Statista, in 2019 Fitbit Inc. represented the fifth largest vendor of wearables worldwide per unit shipments (**Exhibit 5**), having a market share of 4.7% within the broad wearables market worldwide, while within the smartwatch market alone Fitbit is third with a market share in 2019 of 11.3%. However, Fitbit in 2017 and 2018 registered a decrease in number of devices sold worldwide, respectively 15.3M and 13.9M units, to increase to almost 16M units in 2019 (**Exhibit 6**), accompanied by a decrease in revenue, respectively \$1.6B, \$1.5B and \$1.4B (**Exhibit 7**), in operating income, respectively -\$201M, -\$189M and -\$320M (**Exhibit 8**), and in net income, respectively -\$277M, -\$186M and -\$320M (**Exhibit 9**); even though it reduced its operating expenses, respectively \$892M, \$793M and \$748 (**Exhibit 10**), and raised the number of active users in the period 2017-2019, respectively 25.4M, 27.6M and 29.6M users (**Exhibit 11**)^{xix}. All detailed items are available in Fitbit's consolidated financial statements (**Exhibit 12.a, 12.b, 12.c, 12.d, 12.e**)^{xx}.

Stock Price And Premium

Since its IPO on June 18, 2015 Fitbit's share price has been declining more than 78% (as of February 14, 2020, according to Koyfin.com, compared with the S&P500 which gained over 74% return in the same period), with a spike in prices of around +16% on November 01, 2019 (**Exhibit 13**) when was announced the acquisition by Alphabet Inc. before market opening, registering also a few slighter increases in the days before, in general due to acquisition's rumours and in particular due to a bidding war with another contestant for acquiring the smartwatch company (more detailed explanation in the following paragraphs), followed by minor decreases the days right after (**Exhibit 14**).

During the period October 07, 2019 – November 07, 2019, Fitbit's stock price climbed 82.72% (**Exhibit 15**), while Alphabet's rose 8.17%.

By taking a closer look at Fitbit's stock price movements prior the announcement (**Exhibit 14**), is possible to notice that the price kept increasing since four weeks prior, and therefore going from a 4-week premium of 86.55% to an effective premium of just 2.94% on the day of the announcement (**Exhibit 16**).

What's Ahead

To this point, Fitbit has set itself as one of the market leaders in the wearables tech category, but in the last few years it has been facing tough competition mainly from Apple and Samsung. For Fitbit to thrive, it is necessary to be much more than just an activity tracking company, meaning getting into more detailed clinical research and creating devices that can make lightweight medical diagnoses. That means moving into niche markets by making devices for very specific kinds of activities, and moving into healthcare and corporate healthcare^{xxi}.

Acquisition Alphabet–Fitbit

Alphabet Stepping Up In The Smartwatch Market

Apple has demonstrated that smartwatches can be big business, and the Apple Watch has dominated the market since its release in 2015. Alphabet, in contrast, has failed to have a meaningful impact in the market, despite the release of Android-based operating system called WearOS. Alongside, Fitbit was also unable to produce a smartwatch that could compete with the Apple Watch, so in early 2017 the company bought its way into contention by acquiring the smartwatch pioneer Pebble. However, that has not been good enough to keep Fitbit viable, losing over 70% of its stock value since its Initial Public Offering back in 2015, making it an even more desirable acquisition target for Alphabet. With the purchase of Fitbit, Alphabet upgrades itself from the smartwatch ranking “Other” with WearOS, to stepping up into second

or third place in the industry^{xxii}, and suddenly becoming one of the main contenders in a global smartwatch market that is projected to be worth \$130.55 billion by 2024^{xxiii}.

Apple and Samsung are certainly going to feel the pressure created now by the resources of Alphabet combined with Fitbit's smartwatch intellectual property and marketplace. A combination that could potentially disrupt the current competitive environment within the wearables industry, but also within other industries such as healthcare.

The Deal

In early October 2019 it started spreading the rumour of a possible acquisition of Fitbit by Alphabet. On October 28, 2019, Reuters reported that Alphabet Inc. made an offer to acquire Fitbit Inc^{xxiv}. On that day, Fitbit's share price rose almost 31% from the previous trading day (**Exhibit 14**). However, Alphabet was not the only bidder interested in acquiring the wearables company, and this triggered a bidding war. According to a Securities and Exchange Commission (SEC) filing^{xxv}, two firms were aggressively bidding to acquire Fitbit Inc. CNBC in early November 2019 reported that Alphabet started with a written non-binding offer of \$4.59 per share made on October 02, 2019, then declined by Fitbit which asked for \$6.00 per share. Alphabet came back with \$5.05 per share, but subsequently a non-disclosed bidder at that time (which later will be known to be Facebook), offered \$5.90 per share. The two bidders started a bidding war, which ended shortly after on October 13, seeing Alphabet as winner by offering Fitbit a price per share of \$7.35, valuing the company at about \$2.1 billion, and agreeing for an all-cash deal, announced to the public on November 01, 2019 before market open^{xxvi}. That day Fitbit's share price rose of about 16% reaching a closing price of \$7.14, and over 30% the days preceding the official announcement (**Exhibit 14** and **Exhibit 15**). In a virtual meeting held on January 03, 2020, Fitbit's shareholders voted favourably on the company's acquisition, which is expected to be concluded in early 2020, and currently is pending approval by regulators.

James Park, co-founder and CEO of Fitbit commented on the acquisition: “Working with Alphabet gives us an opportunity to transform how we scale our business, allowing us to reach more people around the world faster, while also enhancing the experience we offer to our users and the healthcare system. This collaboration will accelerate the pace of innovation to define the next generation of healthcare wearables”. Then he added: “Alphabet is an ideal partner to advance our mission. With Alphabet’s resources and global platform, Fitbit will be able to accelerate innovation in the wearables category, scale faster, and make health even more accessible to everyone. I could not be more excited for what lies ahead”.

While from Alphabet’s side, Rick Osterloch, Senior Vice President of Devices & Services, said: “Fitbit has been a true pioneer in the industry and has created terrific products, experiences and a vibrant community of users. Over the years, Alphabet has made progress with partners in this space with Wear OS and Google Fit, but we see an opportunity to invest even more in Wear OS as well as introduce Made by Google wearable devices into the market. By working closely with Fitbit’s team of experts, and bringing together the best Artificial Intelligence, software and hardware, we can help spur innovation in wearables and build products to benefit even more people around the world. We’re looking forward to working with the incredible talent at Fitbit, and bringing together the best hardware, software and AI, to build wearables to help even more people around the world”^{xxvii}.

Financials

According to Qatalyst Partners, the financial advisor hired by Fitbit Inc. for carrying out the acquisition, comparable companies that might be used for Fitbit’s valuation include Apple, Samsung, Garmin, GoPro, Fossil Group, just to mention a few (**Exhibit 17**). Such comparable companies have similar features to Fitbit for products sold, sizes, reference market, target customers, marketplace, and technology.

As it is typical of every M&A deal, synergies constitute the main catalyst driving such deals, and, according to a Deloitte analysis^{xxviii}, synergies in the Telecommunication, Media and Technology sectors represent a median of 8% (range 3%-37%) of the target's revenue, while the range of cost synergies goes from 1% to 6%, with a median of 3%. Usually synergies start showing their effect in a second moment following the acquisition and last for a few years. After that period is more logical to assume for companies growth rates that replicate the GDP growth rate experienced in the past and in the countries where the company most get its revenue from. Synergies, similarly to cash flows, can be discounted using the WACC of the company. Fitbit Inc. provides its own forecasts (2020-2021) for revenue, costs, EBITDA, net income (loss), and Earnings Per Share (**Exhibit 18**). Detailed multiples and other financial ratios of Fitbit Inc. can be found in **Exhibit 19**. Regarding Alphabet Inc., valuation multiples such as Price/Earnings, EV/Revenue, EV/EBITDA, and more, are reported in **Exhibit 20**. As of Q3 2019, the outstanding number of shares (as weighted average) for Fitbit is 285.7 million, while for Alphabet is 692.7 million.

Qatalyst Partners indicates as Weighted Average Cost of Capital (WACC) for Fitbit a range of 12.5% – 16.5%, an indicative tax rate of 25%, and a representative EV/Revenue range of 0.3x – 0.8x, with an implied range of Fitbit's price per share of approximately \$3.36 – \$5.91 as of end of Q3 2019. Qatalyst Partners built its own projections for the valuation of Fitbit Inc., which are reported in **Exhibit 21**. Detailed information on how Qatalyst Partners performed Fitbit's valuation through both Discounted Cash Flow and Multiples method are illustrated in **Exhibit 22**^{xxix}.

Beta, equity market value, total debt, cash, and enterprise value for each comparable company are reported in **Exhibit 23**. Capital markets data such as risk-free rate and equity risk premium are illustrated in **Exhibit 24.a**. Additional data useful for the case are shown in **Exhibit 24.b**.

To conclude, in **Exhibit 25.a**, **Exhibit 25.b**, and **Exhibit 25.c** is reported an overview of Fitbit's future specifically regarding operating results, revenue growth, profitability, and financial performance.

Challenges

With over 28 million active users across the world, Fitbit has collected enormous amounts of health data. Alphabet's acquisition of Fitbit can raise concerns by users over their privacy. However, Alphabet has already confirmed that the company will neither sell any Fitbit users' data nor use it for advertising purposes, and it will make available the option for users to review, move, or delete all data that was ever stored through Fitbit's devices^{xxx}.

Moreover, it is important to see if Alphabet will be able to integrate within its business Fitbit's technology efficiently and deliver attractive products and services, as it did when acquired HTC and came up with the successful Google Pixel, on the opposite to the failure represented by the acquisition of Motorola or Nest, for instance.

Opportunities Ahead

Alphabet has spent years trying (and largely) failing to break into the wearables market with its WearOS platform, but it has struggled to make a real impact. Fitbit's hardwares are known to always been efficient and functional, giving Alphabet a much sounder foundation to build on for future Android-integrated wearables devices. The company's high focus on fitness tracking could genuinely be integrated into Alphabet's Google Fit apps, too, creating a strong alternative to the Apple Watch's deep fitness tracking integration with the iPhone^{xxxi}.

Besides the devices and technology themselves brought by Fitbit, Alphabet might be looking to establish itself within the healthcare tech space, as are trying to do Apple and other rivals. Indeed, such competitors have identified healthcare as the next big thing in the tech world, attracted by the expectations of high profits for those who can help to simplify an intricate and

tortuous system. According to an estimate from Statista, in fact, the healthcare tech space could be worth \$24 billion in 2020^{xxxii}.

The wearables industry is a relatively young business, and it has a lot of applications within different industries, and a broad and profitable future as technological innovations keep advancing. The question now is what role will Alphabet play in such business, will Alphabet's management team be able to integrate efficiently and effectively Fitbit, and will Alphabet keep acquiring other companies to gain a leading position against Apple and Samsung, or will it be able to grow organically thanks to Fitbit's acquisition? And more in general, to what extent could smartwatches and other wearables devices be used in people's day to day life, and generating new sources of revenue for companies, and how could the wearables industry scale and grow in the medium-long term?

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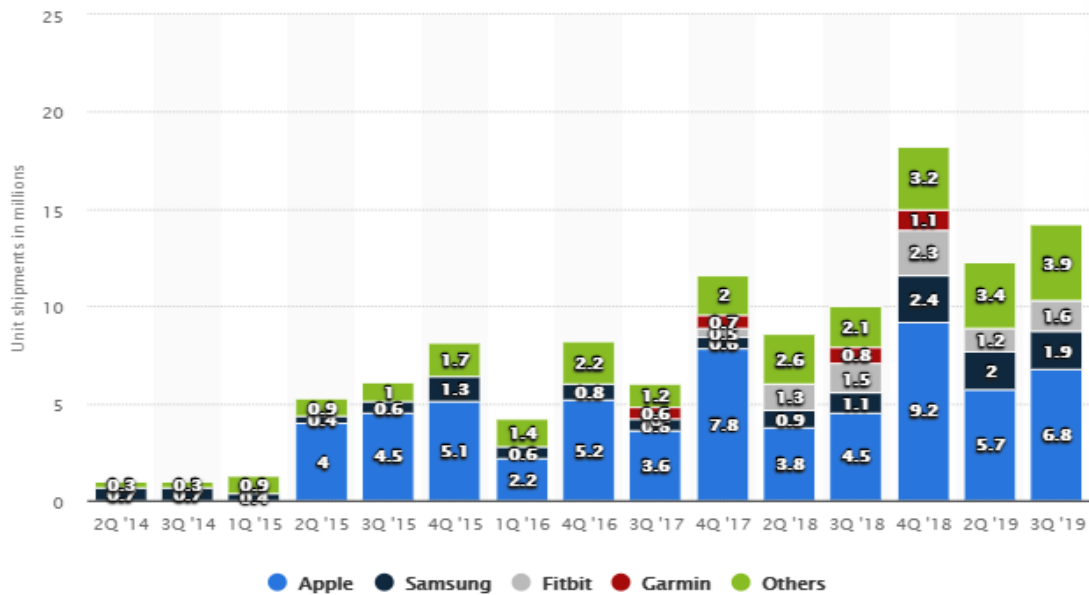
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Exhibits

Exhibit 1 – Global Smartwatch Unit Shipment By Vendor 2014-2019 (Quarterly)



Source: Statista, Strategy Analytics

Exhibit 2 – Alphabet Inc. Revenue Segmentation 2017-2019

	Year Ended December 31,		
	2017	2018	2019
Google Search & other	\$ 69,811	\$ 85,296	\$ 98,115
YouTube ads ⁽¹⁾	8,150	11,155	15,149
Google properties	77,961	96,451	113,264
Google Network Members' properties	17,616	20,010	21,547
Google advertising	95,577	116,461	134,811
Google Cloud	4,056	5,838	8,918
Google other ⁽¹⁾	10,914	14,063	17,014
Google revenues	110,547	136,362	160,743
Other Bets revenues	477	595	659
Hedging gains (losses)	(169)	(138)	455
Total revenues	\$ 110,855	\$ 136,819	\$ 161,857

⁽¹⁾ YouTube non-advertising revenues are included in Google other revenues.

	Year Ended December 31,		
	2017	2018	2019
Google Search & other	\$ 69,811	\$ 85,296	\$ 98,115
YouTube ads ⁽¹⁾	8,150	11,155	15,149
Google Network Members' properties	17,616	20,010	21,547
Google advertising	\$ 95,577	\$ 116,461	\$ 134,811
Google advertising revenues as a percentage of Google segment revenues	86.5%	85.4%	83.9%

⁽¹⁾ YouTube non-advertising revenues are included in Google other revenues.

Source: Alphabet Inc. – Annual Report 2019

Exhibit 3.a – Alphabet Inc. Consolidated Balance Sheet 2018-2019

Alphabet Inc. CONSOLIDATED BALANCE SHEETS		
(In millions, except share amounts which are reflected in thousands, and par value per share amounts)		
	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,701	\$ 18,498
Marketable securities	92,439	101,177
Total cash, cash equivalents, and marketable securities	109,140	119,675
Accounts receivable, net of allowance of \$729 and \$753	20,838	25,326
Income taxes receivable, net	355	2,166
Inventory	1,107	999
Other current assets	4,236	4,412
Total current assets	135,676	152,578
Non-marketable investments	13,859	13,078
Deferred income taxes	737	721
Property and equipment, net	59,719	73,646
Operating lease assets	0	10,941
Intangible assets, net	2,220	1,979
Goodwill	17,888	20,624
Other non-current assets	2,693	2,342
Total assets	\$ 232,792	\$ 275,909
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,378	\$ 5,561
Accrued compensation and benefits	6,839	8,495
Accrued expenses and other current liabilities	16,958	23,067
Accrued revenue share	4,592	5,916
Deferred revenue	1,784	1,908
Income taxes payable, net	69	274
Total current liabilities	34,620	45,221
Long-term debt	4,012	4,554
Deferred revenue, non-current	396	358
Income taxes payable, non-current	11,327	9,885
Deferred income taxes	1,264	1,701
Operating lease liabilities	0	10,214
Other long-term liabilities	3,545	2,534
Total liabilities	55,164	74,467
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 695,556 (Class A 299,242, Class B 46,636, Class C 349,678) and 688,335 (Class A 299,828, Class B 46,441, Class C 342,066) shares issued and outstanding	45,049	50,552
Accumulated other comprehensive loss	(2,305)	(1,232)
Retained earnings	134,885	152,122
Total stockholders' equity	177,628	201,442
Total liabilities and stockholders' equity	\$ 232,792	\$ 275,909

Source: Alphabet Inc. – Annual Report 2019

Exhibit 3.b – Alphabet Inc. Consolidated Statements Of Income 2017-2019

Alphabet Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Year Ended December 31,		
	2017	2018	2019
Revenues	\$ 110,855	\$ 136,819	\$ 161,857
Costs and expenses:			
Cost of revenues	45,583	59,549	71,896
Research and development	16,625	21,419	26,018
Sales and marketing	12,893	16,333	18,464
General and administrative	6,840	6,923	9,551
European Commission fines	2,736	5,071	1,697
Total costs and expenses	84,677	109,295	127,626
Income from operations	26,178	27,524	34,231
Other income (expense), net	1,015	7,389	5,394
Income before income taxes	27,193	34,913	39,625
Provision for income taxes	14,531	4,177	5,282
Net income	<u>\$ 12,662</u>	<u>\$ 30,736</u>	<u>\$ 34,343</u>

Source: Alphabet Inc. – Annual Report 2019

Exhibit 3.c – Alphabet Inc. Consolidated Statements Of Stockholders' Equity 2017-2019

Alphabet Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share amounts which are reflected in thousands)

	Class A and Class B Common Stock, Class C Capital Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2016	691,293	\$ 36,307	\$ (2,402)	\$ 105,131	\$ 139,036
Cumulative effect of accounting change	0	0	0	(15)	(15)
Common and capital stock issued	8,652	212	0	0	212
Stock-based compensation expense	0	7,694	0	0	7,694
Tax withholding related to vesting of restricted stock units	0	(4,373)	0	0	(4,373)
Repurchases of capital stock	(5,162)	(315)	0	(4,531)	(4,846)
Sale of interest in consolidated entities	0	722	0	0	722
Net income	0	0	0	12,662	12,662
Other comprehensive income (loss)	0	0	1,410	0	1,410
Balance as of December 31, 2017	694,783	40,247	(992)	113,247	152,502
Cumulative effect of accounting change	0	0	(98)	(599)	(697)
Common and capital stock issued	8,975	148	0	0	148
Stock-based compensation expense	0	9,353	0	0	9,353
Tax withholding related to vesting of restricted stock units and other	0	(4,782)	0	0	(4,782)
Repurchases of capital stock	(8,202)	(576)	0	(8,499)	(9,075)
Sale of interest in consolidated entities	0	659	0	0	659
Net income	0	0	0	30,736	30,736
Other comprehensive income (loss)	0	0	(1,216)	0	(1,216)
Balance as of December 31, 2018	695,556	45,049	(2,308)	134,885	177,628
Cumulative effect of accounting change	0	0	(30)	(4)	(34)
Common and capital stock issued	8,120	202	0	0	202
Stock-based compensation expense	0	10,890	0	0	10,890
Tax withholding related to vesting of restricted stock units and other	0	(4,455)	0	0	(4,455)
Repurchases of capital stock	(15,341)	(1,294)	0	(17,102)	(18,396)
Sale of interest in consolidated entities	0	160	0	0	160
Net income	0	0	0	34,343	34,343
Other comprehensive income (loss)	0	0	1,104	0	1,104
Balance as of December 31, 2019	688,335	\$ 50,552	\$ (1,232)	\$ 152,122	\$ 201,442

Source: Alphabet Inc. – Annual Report 2019

Exhibit 3.d – Alphabet Inc. Consolidated Statements Of Cash Flows 2017-2019

Alphabet Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2017	2018	2019
Operating activities			
Net income	\$ 12,662	\$ 30,736	\$ 34,343
Adjustments:			
Depreciation and impairment of property and equipment	6,103	8,164	10,856
Amortization and impairment of intangible assets	812	871	925
Stock-based compensation expense	7,679	9,353	10,794
Deferred income taxes	258	778	173
(Gain) loss on debt and equity securities, net	37	(6,650)	(2,798)
Other	294	(189)	(592)
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(3,768)	(2,169)	(4,340)
Income taxes, net	8,211	(2,251)	(3,128)
Other assets	(2,164)	(1,207)	(621)
Accounts payable	731	1,067	428
Accrued expenses and other liabilities	4,891	8,614	7,170
Accrued revenue share	955	483	1,273
Deferred revenue	390	371	37
Net cash provided by operating activities	37,091	47,971	54,520
Investing activities			
Purchases of property and equipment	(13,184)	(25,139)	(23,548)
Purchases of marketable securities	(92,195)	(50,158)	(100,315)
Maturities and sales of marketable securities	73,959	48,507	97,825
Purchases of non-marketable investments	(1,745)	(2,073)	(1,932)
Maturities and sales of non-marketable investments	533	1,752	405
Acquisitions, net of cash acquired, and purchases of intangible assets	(287)	(1,491)	(2,515)
Proceeds from collection of notes receivable	1,419	0	0
Other investing activities	99	98	589
Net cash used in investing activities	(31,401)	(28,504)	(29,491)
Financing activities			
Net payments related to stock-based award activities	(4,166)	(4,993)	(4,765)
Repurchases of capital stock	(4,846)	(9,075)	(18,398)
Proceeds from issuance of debt, net of costs	4,291	6,766	317
Repayments of debt	(4,377)	(6,827)	(585)
Proceeds from sale of interest in consolidated entities	800	950	220
Net cash used in financing activities	(8,298)	(13,179)	(23,209)
Effect of exchange rate changes on cash and cash equivalents	405	(302)	(23)
Net increase (decrease) in cash and cash equivalents	(2,203)	5,986	1,797
Cash and cash equivalents at beginning of period	12,918	10,715	16,701
Cash and cash equivalents at end of period	\$ 10,715	\$ 16,701	\$ 18,498
Supplemental disclosures of cash flow information			
Cash paid for taxes, net of refunds	\$ 6,191	\$ 5,671	\$ 8,203

Source: Alphabet Inc. – Annual Report 2019

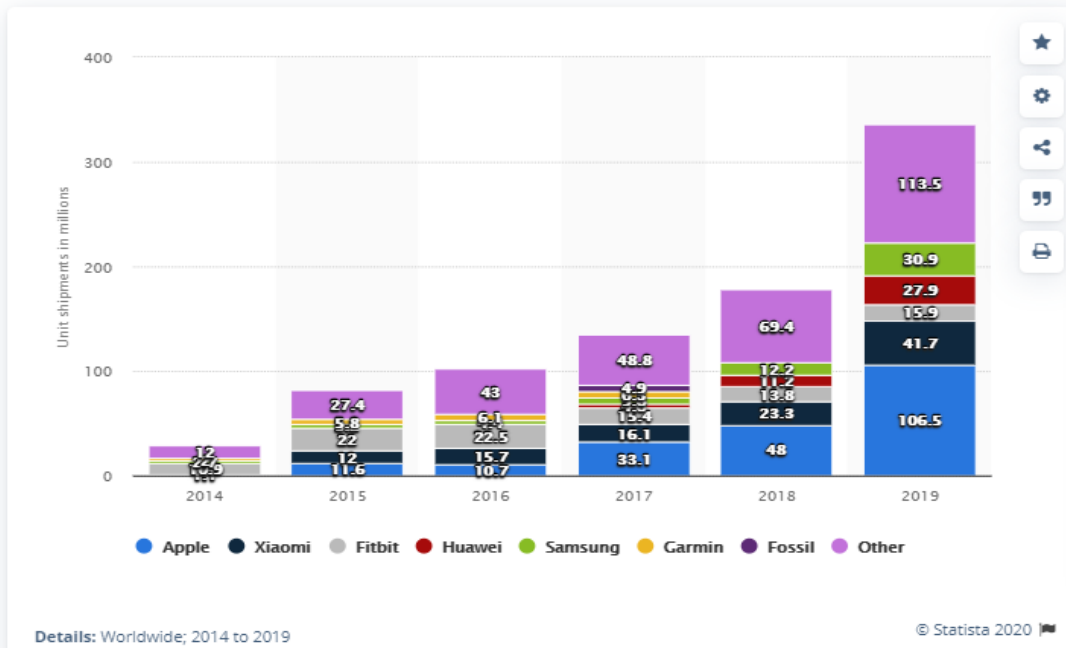
Exhibit 4 – Fitbit Versa 2



Source: Fitbit, Inc.

Exhibit 5 – Wearables Unit Shipments Worldwide By Vendor 2014-2019

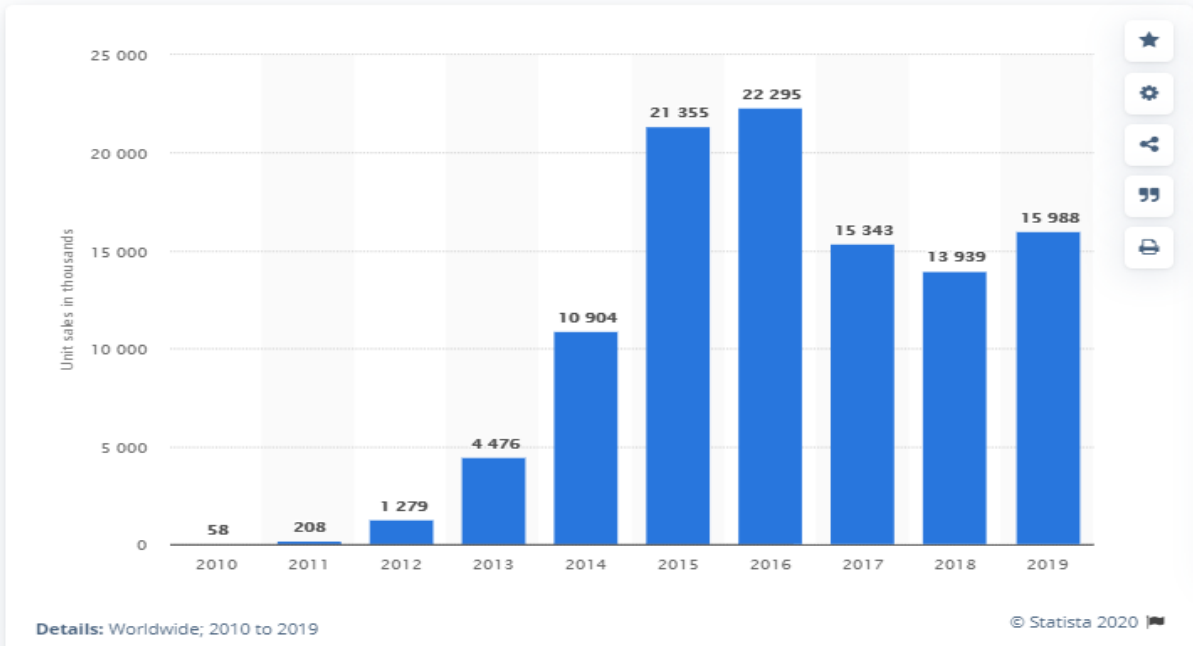
Wearables unit shipments worldwide by vendor from 2014 to 2019
(in millions)



Source: Statista

Exhibit 6 – Number Of Fitbit Devices Sold Worldwide 2010-2019

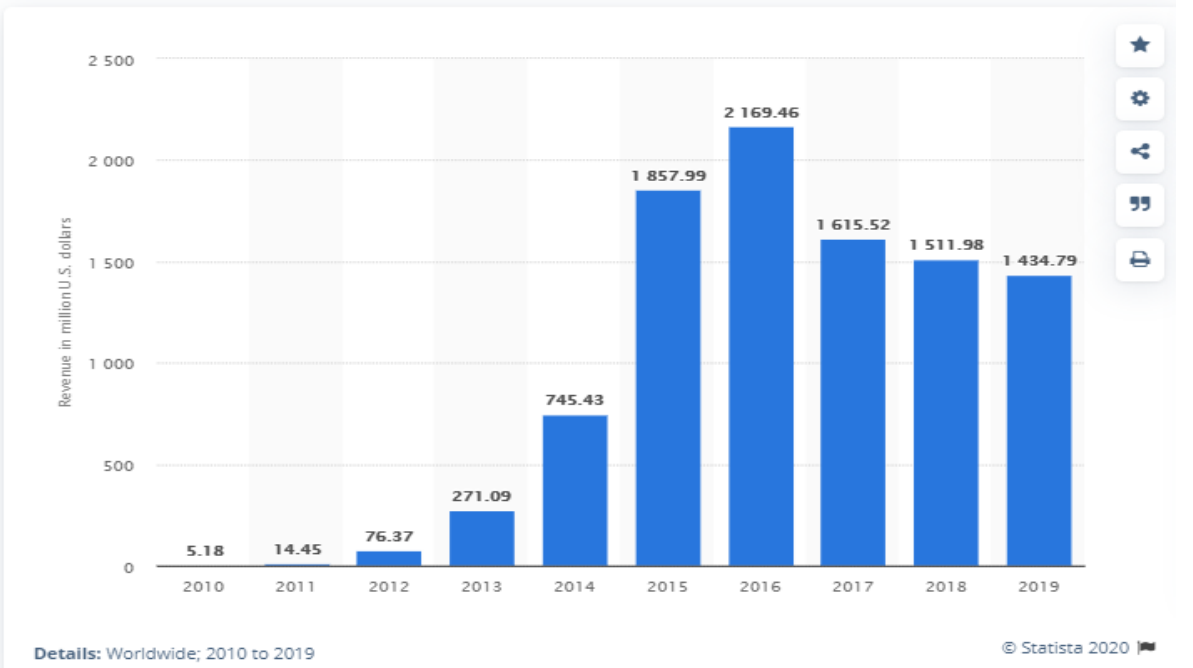
Number of Fitbit devices sold worldwide from 2010 to 2019
(in 1,000s)



Source: Statista

Exhibit 7 – Fitbit Inc. Annual Revenue Chart 2010-2019

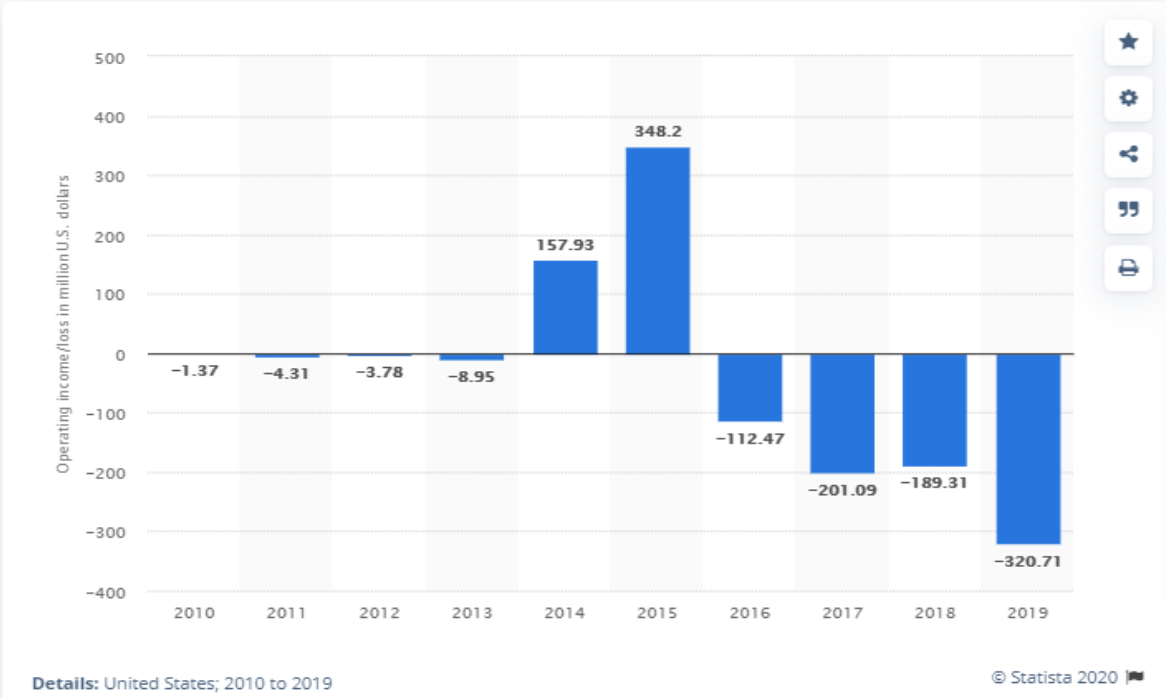
Fitbit Inc. revenue from 2010 to 2019 (in million U.S. dollars)



Source: Statista

Exhibit 8 – Fitbit Inc. Operating Income/Loss Chart 2010-2019

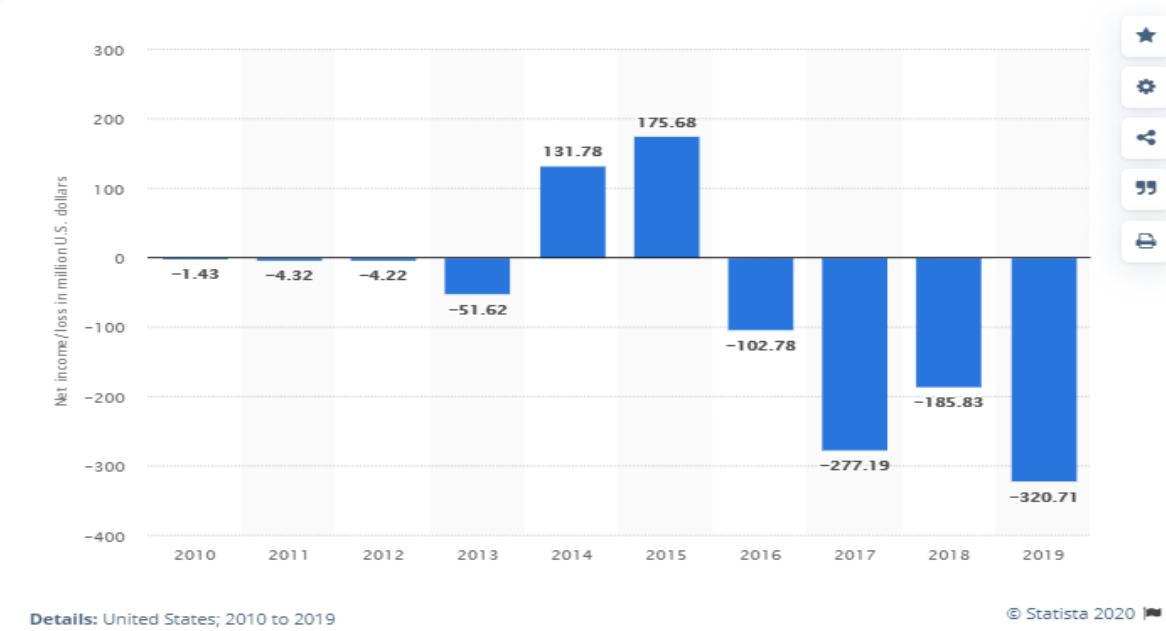
Fitbit, Inc. operating income/loss from 2010 to 2019



Source: Statista

Exhibit 9 – Fitbit Inc. Net Income/Loss Chart 2010-2019

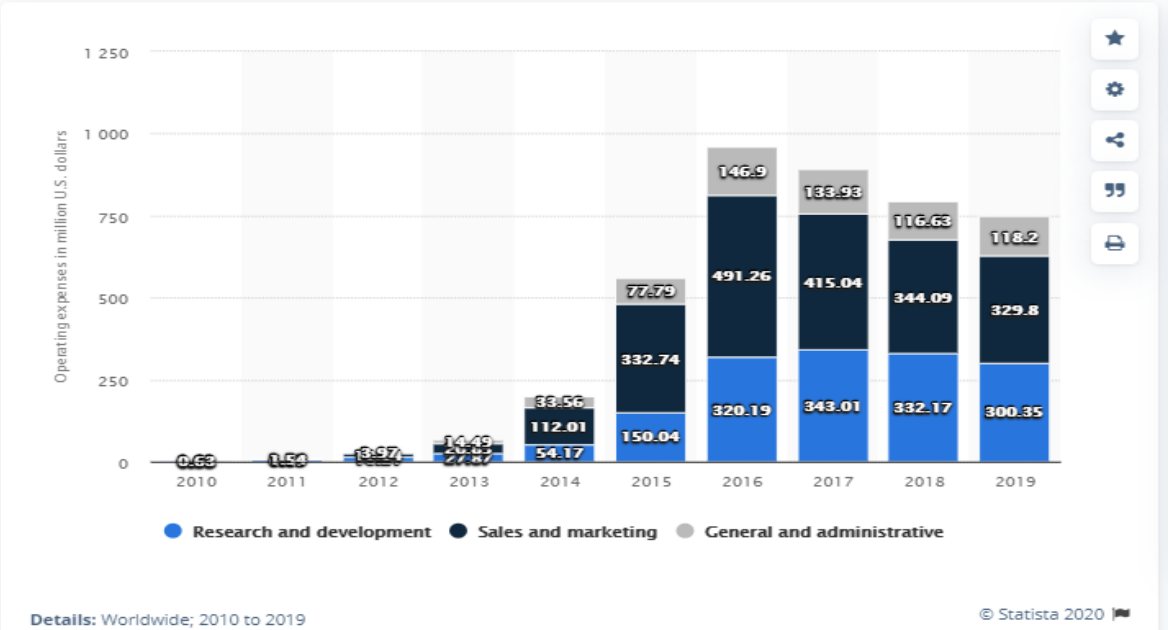
Fitbit Inc. net income/loss from 2010 to 2019



Source: Statista

Exhibit 10 – Fitbit Inc. Operating Expenses By Segment 2010-2019

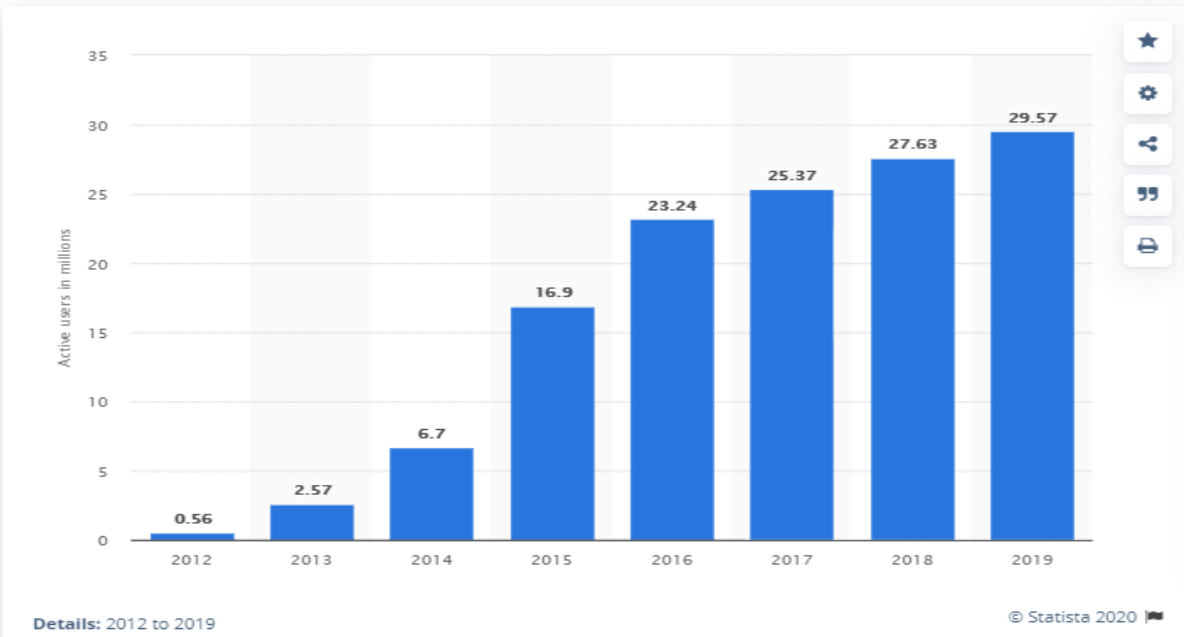
Fitbit, Inc. operating expenses by segment from 2010 to 2019



Source: Statista

Exhibit 11 – Fitbit Inc. Number Of Active Users 2012-2019

Number of active users of Fitbit from 2012 to 2019
(in millions)



Source: Statista

Exhibit 12.a – Fitbit Inc. Consolidated Balance Sheet 2018-2019

FITBIT, INC.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 334,479	\$ 473,956
Marketable securities	184,023	249,493
Accounts receivable, net	435,269	414,209
Inventories	136,752	124,871
Income tax receivable	573	6,957
Prepaid expenses and other current assets	28,656	42,325
Total current assets	1,119,752	1,311,811
Property and equipment, net	82,756	106,286
Operating lease right-of-use assets	70,225	—
Goodwill	64,812	60,979
Intangible assets, net	16,746	23,620
Deferred tax assets	4,111	4,489
Other assets	9,684	8,362
Total assets	\$ 1,368,086	\$ 1,515,547
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 194,626	\$ 251,657
Accrued liabilities	513,530	437,234
Operating lease liabilities	23,511	—
Deferred revenue	32,307	29,400
Income taxes payable	636	1,092
Total current liabilities	764,610	719,383
Long-term deferred revenue	8,535	7,436
Long-term operating lease liabilities	67,902	—
Other liabilities	39,776	52,790
Total liabilities	880,823	779,609
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized	—	—
Class A common stock, \$0.0001 par value, 600,000,000 shares authorized; 235,565,181 and 221,081,203 shares issued and outstanding as of December 31, 2019 and 2018, respectively	23	22
Class B common stock, \$0.0001 par value, 350,000,000 shares authorized; 29,318,245 and 31,281,638 shares issued and outstanding as of December 31, 2019 and 2018, respectively	3	3
Additional paid-in capital	1,126,827	1,055,046
Accumulated other comprehensive income (loss)	188	(66)
Accumulated deficit	(639,778)	(319,067)
Total stockholders' equity	487,263	735,938
Total liabilities and stockholders' equity	\$ 1,368,086	\$ 1,515,547

Source: Fitbit Inc. – Annual Report 2019

Exhibit 12.b – Fitbit Inc. Consolidated Statements Of Operations 2017-2019

FITBIT, INC.			
Consolidated Statements of Operations			
<i>(In thousands, except per share amounts)</i>			
	Year Ended December 31,		
	2019	2018	2017
Revenue	\$ 1,434,788	\$ 1,511,983	\$ 1,615,519
Cost of revenue	1,007,116	908,404	924,618
Gross profit	427,672	603,579	690,901
Operating expenses:			
Research and development	300,354	332,169	343,012
Sales and marketing	329,800	344,091	415,042
General and administrative	118,231	116,627	133,934
Total operating expenses	748,385	792,887	891,988
Operating loss	(320,713)	(189,308)	(201,087)
Interest income, net	10,291	7,808	3,647
Other income (expense), net	1,357	(2,642)	2,796
Loss before income taxes	(309,065)	(184,142)	(194,644)
Provision for income taxes	11,646	1,687	82,548
Net loss	\$ (320,711)	\$ (185,829)	\$ (277,192)
Net loss per share attributable to common stockholders:			
Basic	\$ (1.25)	\$ (0.76)	\$ (1.19)
Diluted	\$ (1.25)	\$ (0.76)	\$ (1.19)
Shares used to compute net loss per share attributable to common stockholders:			
Basic	257,500	244,603	232,032
Diluted	257,500	244,603	232,032

Source: Fitbit Inc. – Annual Report 2019

Exhibit 12.c – Fitbit Inc. Consolidated Statements Of Comprehensive Loss 2017-2019

FITBIT, INC.			
Consolidated Statements of Comprehensive Loss			
<i>(In thousands)</i>			
	Year Ended December 31,		
	2019	2018	2017
Net loss	\$ (320,711)	\$ (185,829)	\$ (277,192)
Other comprehensive loss:			
Cash flow hedges:			
Change in unrealized gain (loss) on cash flow hedges, net of tax expense (benefit) of \$0, \$819, and \$(1), respectively	(66)	7,587	(19,422)
Less: reclassification for realized net loss (gain) included in net loss, net of tax expense (benefit) of \$0, \$(819), and \$74, respectively	—	(7,587)	19,965
Net change, net of tax	(66)	—	543
Available-for-sale investments:			
Change in unrealized gain (loss) on investments	320	(68)	125
Less reclassification for realized net (gain) loss included in net loss	—	11	(13)
Net change, net of tax	320	(57)	112
Change in foreign currency translation adjustment, net of tax	—	—	314
Comprehensive loss	\$ (320,457)	\$ (185,886)	\$ (276,223)

Source: Fitbit Inc. – Annual Report 2019

Exhibit 12.d – Fitbit Inc. Consolidated Statements Of Cash Flows 2017-2019

FITBIT, INC.
Consolidated Statements of Cash Flow:
(In thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities			
Net loss	\$ (320,711)	\$ (185,829)	\$ (277,192)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Provision for doubtful accounts	297	56	7,893
Provision for excess and obsolete inventory	6,011	11,828	14,833
Depreciation	54,139	48,889	39,971
Non-cash lease expense	19,170	—	—
Amortization of intangible assets	8,699	7,926	5,722
Accelerated depreciation of property and equipment	206	7,731	5,250
Amortization of issuance costs and discount on debt	—	785	951
Stock-based compensation	77,739	97,009	91,581
Deferred income taxes	384	(2,548)	173,906
Impairment of equity investment	—	6,000	—
Other	515	(1,395)	216
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(21,313)	(8,036)	63,784
Inventories	(18,471)	(12,860)	92,129
Prepaid expenses and other assets	15,141	125,914	(113,111)
Fitbit Force recall reserve	(1)	(445)	(789)
Accounts payable	(52,560)	35,207	(86,115)
Accrued liabilities and other liabilities	93,262	(11,978)	56,172
Lease liabilities	(22,889)	—	—
Deferred revenue	4,006	(5,622)	(7,472)
Income taxes payable	(456)	575	(3,488)
Net cash provided by (used in) operating activities	(156,832)	113,207	64,241
Cash Flows from Investing Activities			
Purchase of property and equipment	(36,531)	(52,880)	(89,160)
Purchase of marketable securities	(347,579)	(353,948)	(597,933)
Sales of marketable securities	9,124	9,983	42,406
Maturities of marketable securities	405,596	433,594	622,525
Acquisitions, net of cash acquired	(4,849)	(19,253)	(556)
Equity investment	—	—	(6,000)
Net cash provided by (used in) investing activities	25,761	17,496	(28,718)
Cash Flows from Financing Activities			
Repayment of debt	(550)	(747)	—
Payment of financing lease liability	(2,703)	—	—
Proceeds from issuance of common stock	13,018	21,470	19,011
Taxes paid related to net share settlement of restricted stock units	(18,171)	(19,436)	(14,376)
Net cash provided by (used in) financing activities	(8,406)	1,287	4,635
Net increase (decrease) in cash and cash equivalents	(139,477)	131,990	40,158
Effect of exchange rate changes on cash and cash equivalents	—	—	488
Cash and cash equivalents at beginning of period	473,956	341,966	301,320
Cash and cash equivalents at end of period	\$ 334,479	\$ 473,956	\$ 341,966
Supplemental Disclosure			
Cash paid for interest	\$ 669	\$ 631	\$ 1,019
Cash paid (received) for income taxes, net of \$72 million income tax refund in 2018	\$ (4,181)	\$ (69,868)	\$ 382
Supplemental Disclosure of Non-Cash Investing and Financing Activity			
Purchase of property and equipment included in accounts payable and accrued liabilities	\$ 5,720	\$ 6,615	\$ 4,197
Property acquired under capital leases	\$ —	\$ 2,700	\$ —
Contingent consideration related to acquisitions	\$ 1,889	\$ —	\$ —

Source: Fitbit Inc. – Annual Report 2019

Exhibit 12.e – Fitbit Inc. Consolidated Statements Of Stockholders' Equity 2017-2019

FITBIT, INC.						
Consolidated Statements of Stockholders' Equity						
<i>(In thousands except share amounts)</i>						
	<u>Class A and Class B Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2016	225,663,277	\$ 23	\$ 859,345	\$ (978)	\$ 140,142	\$ 998,532
Issuance of common stock	13,093,245	1	19,010	—	—	19,011
Stock-based compensation expense	—	—	92,081	—	—	92,081
Taxes related to net share settlement of restricted stock units	—	—	(14,376)	—	—	(14,376)
Adjustment to opening retained earnings - adoption ASU 2016-09	—	—	—	—	4,938	4,938
Net loss	—	—	—	—	(277,192)	(277,192)
Other comprehensive income	—	—	—	969	—	969
Balance at December 31, 2017	238,756,522	24	956,060	(9)	(132,112)	823,963
Issuance of common stock	13,606,319	1	21,469	—	—	21,470
Stock-based compensation expense	—	—	96,953	—	—	96,953
Taxes related to net share settlement of restricted stock units	—	—	(19,436)	—	—	(19,436)
Adjustment to opening retained earnings - adoption ASU 2014-09 (606)	—	—	—	—	(1,126)	(1,126)
Net loss	—	—	—	—	(185,829)	(185,829)
Other comprehensive loss	—	—	—	(57)	—	(57)
Balance at December 31, 2018	252,362,841	25	1,055,046	(66)	(319,067)	735,938
Issuance of common stock	12,520,585	1	13,018	—	—	13,019
Stock-based compensation expense	—	—	76,934	—	—	76,934
Taxes related to net share settlement of restricted stock units	—	—	(18,171)	—	—	(18,171)
Net loss	—	—	—	—	(320,711)	(320,711)
Other comprehensive income	—	—	—	254	—	254
Balance at December 31, 2019	264,883,426	\$ 26	\$ 1,126,827	\$ 188	\$ (639,778)	\$ 487,263

Source: Fitbit Inc. – Annual Report 2019

Exhibit 12.f – Fitbit Inc. Key Business Metrics

Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key metrics to evaluate our business, measure our performance, develop financial forecasts, and make strategic decisions.

	<u>For the Year Ended or As of December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<i>(in thousands)</i>		
Devices sold	15,988	13,939	15,343
Active users	29,566	27,627	25,367
Adjusted EBITDA	\$ (128,333)	\$ (31,361)	\$ (52,158)
Free cash flow	\$ (193,363)	\$ 60,327	\$ (24,919)

Devices Sold

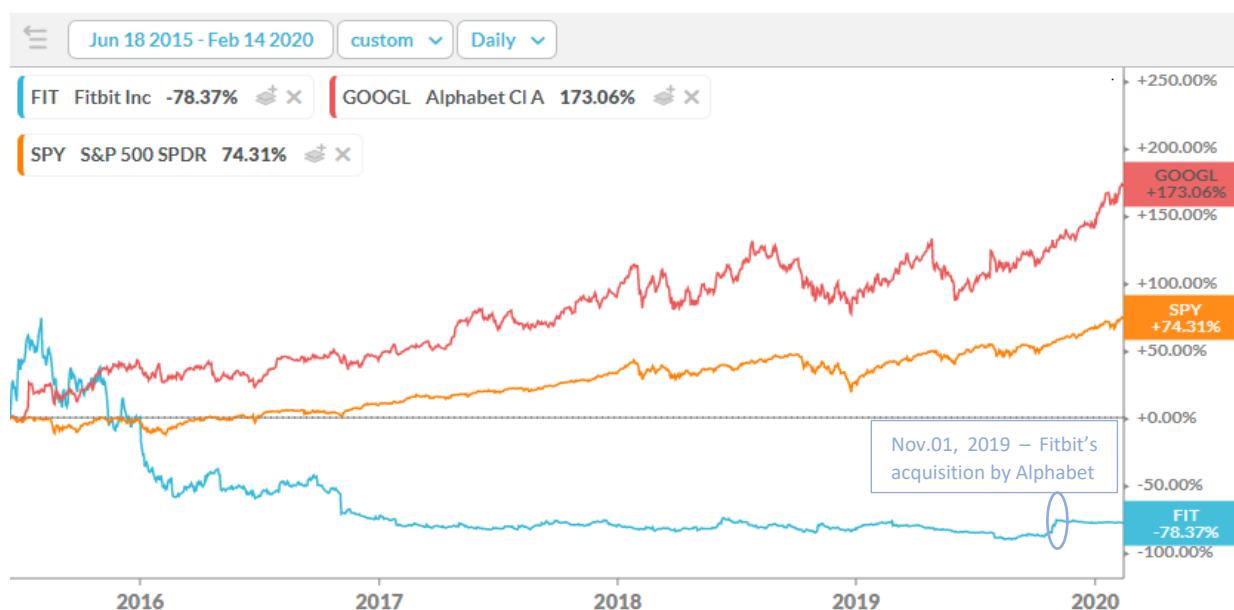
Devices sold represents the number of wearable devices that are sold during a period, net of expected returns. Devices sold does not include sales of accessories. Growth rates between devices sold and revenue are not necessarily correlated because our revenue is affected by other variables, such as the types of products sold during the period, the introduction of new product offerings with differing U.S. manufacturer's suggested retail prices, or MSRPs, and sales of accessories and premium services.

Active Users

We grow our community of users through device sales and investment in software to drive engagement. We define an active user as a registered Fitbit user who, within the three months prior to the date of measurement, has (a) an active Fitbit Premium or Fitbit Coach subscription, (b) paired a wearable device or Aria scale with his or her Fitbit account, or (c) logged at least 100 steps with a wearable device or a weight measurement using an Aria scale. Active users can be new users who joined the community during the past 90 days, existing users who have remained active, or previously active users who were inactive for 90 days or greater, if they meet the preceding definition of an active user. The active user number excludes users who have downloaded our mobile apps without purchasing any of our wearable devices and users who have downloaded free versions of Fitbit Coach but are not subscribers to its paid premium offerings.

Source: Fitbit Inc. – Annual Report 2019

Exhibit 13 – Stock Price Trend Of Fitbit Inc., Alphabet Inc., And S&P500



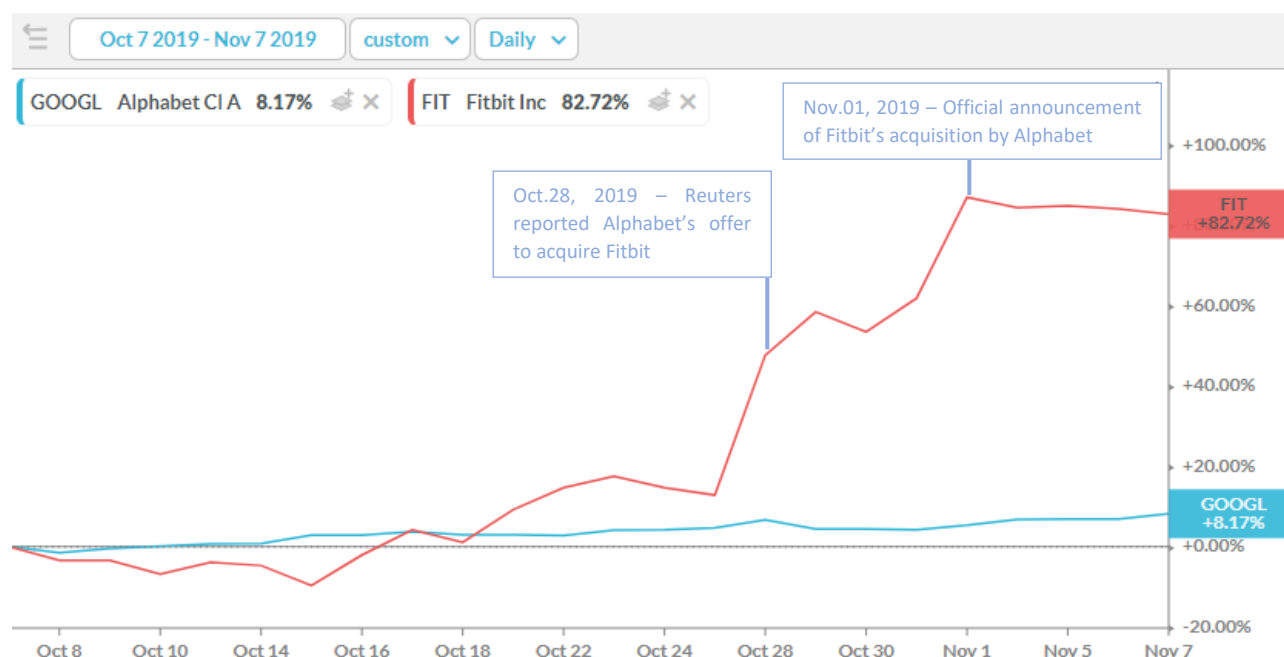
Source: Koyfin.com

Exhibit 14 – Daily Adjusted Closing Price And Returns Of Fitbit Inc. And Alphabet Inc.

Date	FIT - Adj. Clos Price \$e	Daily Return	GOOG - Adj. Close Price \$	Daily Return
07/11/2019	6.98	-0.71%	1,308.86	1.32%
06/11/2019	7.03	-0.42%	1,291.80	-0.02%
05/11/2019	7.06	0.28%	1,292.03	0.05%
04/11/2019	7.04	-1.40%	1,291.37	1.38%
01/11/2019	7.14	15.53%	1,273.74	1.08%
31/10/2019	6.18	5.46%	1,260.11	-0.09%
30/10/2019	5.86	-3.14%	1,261.29	-0.11%
29/10/2019	6.05	7.27%	1,262.62	-2.12%
28/10/2019	5.64	30.86%	1,290.00	1.97%
25/10/2019	4.31	-1.60%	1,265.13	0.33%
24/10/2019	4.38	-2.45%	1,260.99	0.15%
23/10/2019	4.49	2.51%	1,259.13	1.31%
22/10/2019	4.38	5.04%	1,242.80	-0.27%
21/10/2019	4.17	8.03%	1,246.15	0.05%
18/10/2019	3.86	-3.02%	1,245.49	-0.60%
17/10/2019	3.98	6.42%	1,253.07	0.76%
16/10/2019	3.74	8.41%	1,243.64	0.05%
15/10/2019	3.45	-5.22%	1,243.01	2.13%
14/10/2019	3.64	-0.82%	1,217.14	0.14%
11/10/2019	3.67	3.09%	1,215.45	0.56%
10/10/2019	3.56	-3.52%	1,208.67	0.53%
09/10/2019	3.69	0.00%	1,202.31	1.11%
08/10/2019	3.69	-3.40%	1,189.13	-1.54%
07/10/2019	3.82	-	1,207.68	-

Source: Koyfin.com

Exhibit 15 – Stock Price Trend Of Fitbit Inc. And Alphabet Inc.



Source: Koyfin.com

Exhibit 16 – Premiums Offer Price Vs. Fitbit Stock Price, And Gain (Loss) vs. Synergies

Fitbit Inc.	Closing Price	Acquisition Price	Premium %	Premium per share	Premium \$	Present Value of Synergies	Gain (Loss) vs. Premium \$
Announcement Date (01/11/2019)	\$ 7.14	\$ 7.35	2.94%	\$ 0.21	\$ 59,997,000	\$ 596,668,371	\$ 536,671,371
Current Date (14/02/2020)	\$ 6.42	\$ 7.35	14.49%	\$ 0.93	\$ 265,701,000	\$ 596,668,371	\$ 330,967,371
1 day prior (31/10/2019)	\$ 6.18	\$ 7.35	18.93%	\$ 1.17	\$ 334,269,000	\$ 596,668,371	\$ 262,399,371
1 week prior (25/10/2019)	\$ 4.31	\$ 7.35	70.53%	\$ 3.04	\$ 868,528,000	\$ 596,668,371	\$ -271,859,629
4 weeks prior (04/10/2019)	\$ 3.94	\$ 7.35	86.55%	\$ 3.41	\$ 974,237,000	\$ 596,668,371	\$ -377,568,629

Source: Koyfin.com

Source: Case Writer

Exhibit 17 – Fitbit Inc. Comparable Companies And EV/Revenue Multiples

Fitbit Inc. - Comparable Companies	
<i>Selected Consumer Electronics / Wearable Companies</i>	<i>CY2020E Revenue Multiples (EV/Revenue) NTM</i>
Arlo Technologies, Inc.	0.3x
Fossil Group, Inc.	0.3x
Garmin Ltd.	4.2x
GoPro, Inc.	0.6x
iRobot Corporation	1.0x
Logitech International S.A.	2.1x
Plantronics, Inc.	1.5x
Sonos, Inc.	0.9x
Average	1.36x
Median	0.95x

<i>Selected Large-Cap Diversified Consumer Electronics</i>	<i>CY2020E Revenue Multiples (EV/Revenue) NTM</i>
Apple Inc.	3.6x
Nokia Corporation	0.7x
Samsung Electronics	1.0x
Sony Corporation	1.1x
Xiaomi	0.7x
Average	1.42x
Median	1.05x

Tot. Average	1.38x
Tot. Median	1.0x

Source: Fitbit Inc. - Company Report (DEFM 14A - Securities And Exchange Commission)

Fitbit Inc.	
EV/Revenue (as of Q3 2019) - LTM	0.4x
EV/Revenue (as of Q3 2019) - NTM	0.4x

Source: Koyfin.com

Exhibit 18 – Fitbit Inc. Forecasts (\$ million)

	2018A	2019F	2020P	2021P	2018A - 2021P CAGR
Revenue	\$ 1,512	\$ 1,480	\$ 1,607	\$ 1,821	6 %
Non-GAAP Cost of Revenue ⁽¹⁾	894	962	988	1,061	6 %
Non-GAAP Gross Profit ⁽²⁾	618	518	619	760	7 %
Non-GAAP Operating Expense ⁽³⁾	702	638	600	651	(2)%
Non-GAAP Operating Income (Loss) ⁽⁴⁾	(84)	(120)	19	109	
Adjusted EBITDA ⁽⁵⁾	(31)	(62)	69	159	
Non-GAAP Net Income (Loss) ⁽⁶⁾	(49)	(82)	22	90	
Non-GAAP Earnings Per Share ⁽⁷⁾	(0.20)	(0.32)	0.08	0.31	

- (1) Non-GAAP cost of revenue is calculated by starting with cost of revenue and subtracting stock-based compensation expense, the impact of restructuring and intangible assets amortization.
- (2) Non-GAAP gross profit is calculated by starting with gross profit and subtracting stock-based compensation expense, the impact of restructuring and intangible assets amortization.
- (3) Non-GAAP operating expense is calculated by starting with operating expense and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring and intangible assets amortization.
- (4) Non-GAAP operating income (loss) is calculated by starting with operating income (loss) and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring and intangible assets amortization.
- (5) Adjusted EBITDA is a non-GAAP financial measure calculated by starting with net loss and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring, impairment of equity investment, depreciation, intangible assets amortization, interest income, net and income tax expense (benefit).
- (6) Non-GAAP net income (loss) is calculated by starting with net loss and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring, impairment of equity investment, intangible assets amortization and the income tax effect of non-GAAP adjustments.
- (7) Non-GAAP earnings per share excludes stock-based compensation expense, certain litigation expenses, the impact of restructuring, impairment of equity investment, intangible assets amortization and the income tax effect of non-GAAP adjustments.

Source: Fitbit Inc. – Schedule 14A Information. Definitive Proxy Statement – Securities and Exchange Commission

Exhibit 19 – Fitbit Inc. Valuation Multiples And Debt Ratios

	FY 2015 Dec 31 '15	FY 2016 Dec 31 '16	FY 2017 Dec 31 '17	FY 2018 Dec 31 '18	FY 2019 Dec 31 '19	Current
REVENUE MULTIPLES						
Enterprise Value to Revenues (Forward 12M)	2.6x	0.4x	0.4x	0.4x	0.9x	0.9x
Enterprise Value to Revenues (Trailing 12M)	3.8x	0.4x	0.4x	0.4x	0.9x	0.9x
Price to Revenues (Forward 12M)	2.8x	0.7x	0.8x	0.8x	1.2x	1.2x
Price to Revenues (Trailing 12M)	4.1x	0.7x	0.8x	0.8x	1.1x	1.2x
EBITDA/EARNINGS MULTIPLES						
Enterprise Value to EBITDA (Forward 12M)	14.8x	4.0x	3.9x	150.2x	150.2x	150.2x
Enterprise Value to EBITDA (Trailing 12M)	17.6x	4.6x	3.2x	3.2x	3.2x	3.2x
DEBT ANALYSIS						
Total Debt / Equity	-	-	-	-	-	19.0%
Total Debt / Capital	-	-	-	-	-	16.0%
Long-term Debt / Equity	-	-	-	-	-	13.9%
Long-Term Debt / Capital	-	-	-	-	-	11.7%
Total Liabilities / Total Assets	35.4%	45.2%	47.9%	51.4%	51.4%	64.4%

Source: Koyfin.com

Exhibit 20 – Alphabet Inc. Valuation Multiples

	Reporting Dates	FY 2015 Dec 31 '15	FY 2016 Dec 31 '16	FY 2017 Dec 31 '17	FY 2018 Dec 31 '18	FY 2019 Dec 31 '19	Current
REVENUE MULTIPLES							
Enterprise Value to Revenues (Forward 12M)		5.7x	4.6x	5.1x	4.0x	4.5x	3.9x
Enterprise Value to Revenues (Trailing 12M)		6.5x	5.4x	6.1x	4.8x	5.3x	4.4x
Price to Revenues (Forward 12M)		6.4x	5.4x	5.9x	4.7x	5.0x	4.5x
Price to Revenues (Trailing 12M)		7.4x	6.3x	7.0x	5.6x	6.0x	5.0x
EBITDA/EARNINGS MULTIPLES							
Enterprise Value to EBITDA (Forward 12M)		13.9x	11.4x	12.7x	10.9x	12.4x	11.5x
Enterprise Value to EBITDA (Trailing 12M)		20.1x	16.3x	18.4x	15.8x	18.5x	14.1x
Price to Earnings (Forward 12M P/E)		24.0x	20.1x	26.6x	23.3x	26.0x	23.4x
Price to Earnings (Trailing 12M P/E)		34.9x	29.0x	35.2x	39.2x	28.7x	24.1x
Price/Earnings to Growth (PEG) Ratio		1.5x	1.2x	1.4x	1.4x	1.7x	1.4x

Source: Koyfin.com

Exhibit 21 – Qatalyst Partners Forecasts of Fitbit Inc. (\$ million)

	4Q2019E ⁽¹⁾	CY2020E	CY2021E	CY2022E	CY2023E	Terminal CY2024E ⁽²⁾
Revenue	\$ 519	\$ 1,487	\$ 1,534	\$ 1,588	\$ 1,646	\$ 1,713
Non-GAAP Cost of Revenue⁽³⁾	(351)	(946)	(936)	(949)	(969)	(993)
Non-GAAP Gross Profit⁽⁴⁾	168	541	597	639	677	720
Non-GAAP Operating Expense ⁽⁵⁾	(176)	(600)	(600)	(624)	(649)	(675)
Non-GAAP Operating Income (Loss)⁽⁶⁾	(8)	(59)	(3)	15	28	46
Less: Non-GAAP Tax Adjustment	(0)	(2)	(2)	(2)	(2)	(11)
NOPAT⁽⁷⁾	(9)	(60)	(4)	13	26	34
Less: Capital Expenditures	(15)	(40)	(40)	(40)	(41)	(45)
Plus: Depreciation	13	45	45	45	45	45
Less: Investment in Working Capital	78	(34)	(25)	(17)	(17)	(8)
Unlevered Free Cash Flow⁽⁸⁾	67	(89)	(25)	0	13	26
Adjusted EBITDA⁽⁹⁾	5	(14)	42	60	73	91
Non-GAAP Net Income (Loss)⁽¹⁰⁾	(5)	(37)	5	17	27	39
Non-GAAP Earnings Per Share⁽¹¹⁾	(0.02)	(0.14)	0.02	0.06	0.09	0.12

- (1) The financial projections for CY2019E were made available to Google, together with the actual financial results of Fitbit for the first, second and third quarters of calendar year 2019.
- (2) As shown in this column, for the purpose of calculating the terminal value in year 2024, the amounts for taxes paid, net operating profit after tax ("NOPAT") and unlevered free cash flow assume a long-term effective tax rate of 25%. The financial projections provided to Google assumed approximately \$2 million in cash taxes paid in 2024, which yielded a NOPAT of \$44 million and unlevered free cash flow of \$36 million in 2024.
- (3) Non-GAAP cost of revenue is calculated by starting with cost of revenue and subtracting stock-based compensation expense, the impact of restructuring and intangible assets amortization.
- (4) Non-GAAP gross profit is calculated by starting with gross profit and subtracting stock-based compensation expense, the impact of restructuring and intangible assets amortization.
- (5) Non-GAAP operating expense is calculated by starting with operating expense and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring and intangible assets amortization.
- (6) Non-GAAP operating income (loss) is calculated by starting with operating income (loss) and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring and intangible assets amortization.
- (7) NOPAT is a non-GAAP financial measure calculated by starting with Non-GAAP operating income (loss) and making an associated non-GAAP tax adjustment.
- (8) Unlevered free cash flow is a non-GAAP financial measure calculated by starting with NOPAT and subtracting capital expenditures, adding back depreciation and subtracting investment in working capital.
- (9) Adjusted EBITDA is a non-GAAP financial measure calculated by starting with net loss and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring, impairment of equity investment, depreciation, intangible assets amortization, interest income, net and income tax expense (benefit).
- (10) Non-GAAP net income (loss) is calculated by starting with net loss and subtracting stock-based compensation expense, certain litigation expenses, the impact of restructuring, impairment of equity investment, intangible assets amortization and the income tax effect of non-GAAP adjustments.
- (11) Non-GAAP earnings per share excludes stock-based compensation expense, certain litigation expense, the impact of restructuring, impairment of equity investment, intangible assets amortization and the income tax effect of non-GAAP adjustments.

Source: Fitbit Inc. – Schedule 14A Information. Definitive Proxy Statement – Securities and Exchange Commission

Exhibit 22 – Qatalyst Partners Valuation Methodology Of Fitbit Inc.

Illustrative Discounted Cash Flow Analysis

Qatalyst Partners performed an illustrative discounted cash flow analysis, which is designed to imply a range of potential, present values of a share of Fitbit Common Stock by:

- adding:
 - (a) the implied net present value of our estimated future unlevered free cash flows, based on the Projections, for the fourth quarter of calendar year 2019 through calendar year 2023 (which implied present value was calculated by using a range of discount rates of 12.5% to 16.5%, based on our estimated weighted average cost of capital);
 - (b) the implied net present value of our terminal value, calculated by multiplying our estimated revenue in calendar year 2024 based on the Projections by a range of multiples of enterprise value to next-twelve-months estimated revenue of 0.3x to 0.8x, and discounted to present value using the same range of discount rates used in item (a) above;
 - (c) the implied net present value of our forecasted tax attributes outstanding as of December 31, 2023 based on the Projections (which implied present value was calculated by using the same range of discount rates used in item (a) above and the statutory tax rate applicable to us, as provided by our management); and
 - (d) our cash as of September 28, 2019, as provided by our management; and
- dividing the resulting amount by the number of fully-diluted shares of Fitbit Common Stock (calculated utilizing the treasury stock method), adjusted, as applicable, for Fitbit RSUs, Fitbit PSUs, Fitbit Options and the Warrant, each outstanding as of October 28, 2019, all of which amounts were provided by our management, with each of the above-referenced estimated future unlevered free cash flows, terminal value and forecasted tax attributes having also been adjusted for the degree of estimated dilution to current stockholders through each respective applicable period due to the estimated net effects of equity issuances and cancellations related to future equity compensation, based on estimates of future dilution provided by our management.

Based on the calculations set forth above, this analysis implied a range of per share values for Fitbit Common Stock of approximately \$2.58 to \$4.30.

Selected Companies Analysis

Qatalyst Partners compared selected financial information and public market multiples for us with publicly available information and public market multiples for selected companies.

Based upon the Analyst Projections as of October 31, 2019 for calendar year 2020, and using the closing prices as of October 31, 2019 for shares of the selected companies, Qatalyst Partners calculated, among other things, the implied fully-diluted enterprise value divided by the estimated consensus revenue for calendar year 2020 (the “CY2020E Revenue Multiples”) for each of the selected companies.

The CY2020E Revenue Multiple for us was 0.4x based on the Analyst Projections, and our fully-diluted enterprise value was calculated using the closing price of our Class A Common Stock as of the Unaffected Date.

Based on an analysis of the CY2020E Revenue Multiples for each of the selected companies, Qatalyst Partners selected a representative range of 0.3x to 0.8x and applied this range to our estimated calendar year 2020 revenue based on each of the Analyst Projections and the Projections. In addition, for the purpose of this analysis, Qatalyst Partners calculated our enterprise value assuming our cash as of September 28, 2019, as provided by our management. Based on the calculations set forth above and the number of fully-diluted shares of Fitbit Common Stock (calculated utilizing the treasury stock method), adjusted, as applicable, for Fitbit RSUs, Fitbit PSUs, Fitbit Options and the Warrant, each outstanding as of October 28, 2019, all of which amounts were provided by our management, this analysis implied a range of per share values for Fitbit Common Stock of approximately \$3.36 to \$5.91 based on the Analyst Projections and approximately \$3.36 to \$5.93 based on the Projections.

No company included in the selected companies analysis is identical to us. In evaluating the selected companies, Qatalyst Partners made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters. Many of these matters are beyond our control, such as the impact of competition on our business and the industry in general, industry growth and the absence of any material adverse change in our financial condition and prospects or the industry or in the financial markets in general. Individual multiples or mathematical analysis, such as determining the arithmetic mean, median, or the high or low, is not in itself a meaningful method of using selected company data.

Source: Fitbit Inc. – Schedule 14A Information. Definitive Proxy Statement – Securities and Exchange Commission

Exhibit 23 – Capital Markets Data Of Comparable Companies (As Of End Of Q3 2019)

Comparable Companies Market Data (as of end of Q3 2019)								
Company	Beta	Equity Market Value	Total Debt	Minority Interest	Cash	Enterprise Value	P/E Trailing 12M	P/E Forward 12M
Fitbit Inc.	1.16	\$ 1,007,500,000	\$ 94,000,000	\$ -	\$ 502,200,000	\$ 599,300,000	5.3x	-
Arlo Technologies, Inc.	-	\$ 260,500,000	\$ 34,300,000	\$ -	\$ 153,800,000	\$ 141,000,000	-	-
Fossil Group, Inc.	0.70	\$ 620,300,000	\$ 621,100,000	\$ 600,000	\$ 147,500,000	\$ 1,093,900,000	22.0x	26.7x
Garmin Ltd.	0.10	\$ 16,122,600,000	\$ 56,300,000.00	\$ -	\$ 1,276,900,000	\$ 14,902,000,000	21.9x	20.8x
GoPro, Inc.	1.30	\$ 751,200,000	\$ 217,700,000	\$ -	\$ 79,000,000	\$ 889,900,000	45.6x	13.0x
iRobot Corporation	1.10	\$ 1,696,400,000	\$ 62,600,000	\$ -	\$ 91,100,000	\$ 1,667,900,000	20.0x	18.9x
Logitech International S.A.	0.10	\$ 6,751,900,000	\$ 35,900,000	\$ -	\$ 574,500,000	\$ 6,213,300,000	26.6x	20.5x
Plantronics, Inc.	1.00	\$ 1,416,600,000	\$ 1,679,600,000	\$ -	\$ 200,800,000	\$ 2,895,400,000	239.8x	6.4x
Sonos, Inc.	0.30	\$ 1,436,400,000	\$ 33,200,000	\$ -	\$ 338,600,000	\$ 1,131,000,000	224.6x	19.8x
Apple Inc.	1.20	\$ 988,887,000,000	\$ 108,047,000,000	\$ -	\$ 100,557,000,000	\$ 996,377,000,000	18.6x	17.6x
Nokia Corporation	0.90	\$ 28,459,500,000	\$ 5,944,000,000	\$ 86,100,000	\$ 5,720,500,000	\$ 28,683,000,000	48.8x	15.1x
Samsung Electronics	0.93	\$ 369,730,000,000	\$ 18,410,000,000	\$ -	\$ 108,720,000,000	\$ 279,420,000,000	-	-
Sony Corporation	0.90	\$ 72,452,700,000	\$ 16,379,300,000	\$ 6,681,700,000	\$ 6,625,500,000	\$ 82,206,500,000	9.7x	15.0x
Xiaomi	-	\$ 249,520,000,000	\$ 50,600,000,000	\$ -	\$ 101,250,000,000	\$ 198,870,000,000	-	-

Source: Koyfin.com

Exhibit 24.a – Capital Markets Data (Equity Risk Premium)

EQUITY RISK PREMIUM		
MONTHLY		
Start of month	T.Bond Rate	ERP (T12m)
01-dic-18	2.99%	5.68%
01-gen-19	2.68%	5.96%
01-feb-19	2.63%	5.53%
01-mar-19	2.72%	5.36%
01-apr-19	2.40%	5.75%
01-mag-19	2.51%	5.62%
01-giu-19	2.14%	5.93%
01-lug-19	2.00%	5.67%
01-ago-19	2.02%	5.59%
01-set-19	1.50%	5.75%
01-ott-19	1.67%	5.55%
01-nov-19	1.68%	5.44%
01-dic-19	1.78%	5.25%
01-gen-20	1.92%	5.20%
01-feb-20	1.51%	5.24%
01-mar-20	1.13%	5.69%
01-apr-20	0.68%	6.16%
ANNUAL		
Year	T.Bond Rate	ERP
2009	3.84%	4.36%
2010	3.29%	5.20%
2011	1.88%	6.01%
2012	1.76%	5.78%
2013	3.04%	4.96%
2014	2.17%	5.78%
2015	2.27%	6.12%
2016	2.45%	5.69%
2017	2.41%	5.08%
2018	2.68%	5.96%
2019	1.92%	5.20%

Source: Aswath Damodaran, professor of Corporate Finance and Valuation, Stern School of Business at New York University

Exhibit 24.b – Additional Data

Additional Data		Sources:
Tax rate Fitbit Inc. (estimated by Qatalyst Partners)	25.00%	Company report - Qatalyst Partners
WACC range Fitbit Inc. (estimated by Qatalyst Partners)	12.5% - 16.5%	Company report - Qatalyst Partners
Multiple EV/Revenue for TV comparables (avg large-cap)	1.05x	Company report - Qatalyst Partners
EV/Revenue multiple range Fitbit Inc. (estimated by Qatalyst Partners)	0.3x - 0.8x	Company report - Qatalyst Partners
Implied range price per share Fitbit Inc. (estimated by Qatalyst Partners)	\$ 3.36 - \$ 5.91	Company report - Qatalyst Partners
Revenue synergies median in TMT sector (range 3% - 37%)	8.00%	Deloitte
Cost synergies median in TMT sector (range 1% - 6%)	3.00%	Deloitte
World real GDP growth rate 2020	2.94%	OECD
World real GDP growth rate 2021	3.02%	OECD
Average world real GDP growth rate (2010-2020)	3.55%	OECD
Cash and equivalents (as of 30/09/2019)	\$ 502,200,000	Koyfin.com
Debt market value (as of 30/09/2019)	\$ 94,000,000	Koyfin.com
Outstanding shares Fitbit Inc. (weighted avg Q3 2019)	285,700,000	Koyfin.com
Outstanding shares Alphabet Inc. (weighted avg Q3 2019)	692,700,000	Koyfin.com
Fitbit Inc. beta range	1.10 - 1.26	Finbox.com
Fitbit Inc. last 12 month debt paydown	-5.50%	Finbox.com
Alphabet Inc. P/E (Forward 12M) (as of Q3 2019)	23.5x	Koyfin.com
Alphabet Inc. P/E (Trailing 12M) (as of Q3 2019)	24.7x	Koyfin.com
Alphabet Inc. 2020 Earnings per share (EPS) forecast	\$ 55.68	Koyfin.com
Alphabet Inc. share price as of 01/11/2019	\$ 1,273.74	Koyfin.com
Fitbit Inc. 2020 Earnings per share (EPS) forecast	(\$0.26)	Koyfin.com
Fitbit Inc. Pre-deal share price as of 01/11/2019	\$7.14	Koyfin.com
Fitbit Inc. P/E (Trailing 12M) (as of Q3 2019)	-5.3x	Case Writer estimates
Deal payment	100% cash	Fitbit Inc.

Source: multiple (see in the exhibit)

Exhibit 25.a – Fitbit Inc. Overview Of Future Operating Results

Our quarterly operating results or other operating metrics may fluctuate significantly, which could cause the trading price of our Class A common stock to decline.

Our quarterly operating results and other operating metrics have fluctuated in the past and may continue to fluctuate from quarter to quarter. We expect that this trend will continue as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- the impact of our pending Merger with Google;
- the level of demand for our wearable devices and our ability to maintain or increase the size and engagement of our community of users;
- the timing and success of new product and service introductions by us and the transition from legacy products;
- the timing and success of new product and service introductions by our competitors or any other change in the competitive landscape of our market;
- the mix of products sold in a quarter;
- the continued market acceptance of, and the growth of the market for, wearable devices, and evolution of this market into smartwatches and other form factors;
- pricing pressure as a result of competition or otherwise;
- delays or disruptions in our supply, manufacturing, or distribution chain;
- errors in our forecasting of the demand for our products, which could lead to lower revenue or increased costs, or both;
- seasonal buying patterns of consumers;
- increases in levels of channel inventory resulting from sales to our retailers and distributors in anticipation of future demand;
- increases in and timing of sales and marketing and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- impact of sales and marketing efforts and promotions by competitors, which are difficult to predict;
- insolvency, credit, or other difficulties faced by our distributors and retailers affecting their ability to purchase or pay for our products;
- insolvency, credit, or other difficulties confronting our suppliers, contract manufacturers, or logistics providers leading to disruptions in our supply or distribution chain;
- levels of product returns, stock rotation, and price protection rights;
- levels of warranty claims or estimated costs of warranty claims;
- adverse litigation judgments, settlements, or other litigation-related costs;
- changes in the legislative or regulatory environment, such as with respect to privacy, information security, health and wellness devices, consumer product safety, advertising, and taxes;
- product recalls, regulatory proceedings, or other adverse publicity about our products;
- fluctuations in foreign exchange rates;
- costs related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs;
- changes in the trade policies of the United States or other countries, such as the imposition of new tariffs on goods made in China; and
- general economic conditions in either domestic or international markets.

Any one of the factors above, or the cumulative effect of several factors, may result in significant fluctuations in our operating results.

The variability and unpredictability of our quarterly operating results or other operating metrics could result in our failure to meet our expectations, those of any analysts that publish financial coverage of us, or those of investors with respect to revenue or other operating results for a particular period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our Class A common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

Source: Fitbit Inc. – Annual Report 2019

Exhibit 25.b – Fitbit Inc. Overview Of Future Revenue Growth And Profitability

We may not be able to achieve revenue growth or profitability in the future.

Our historical revenue growth in certain periods should not be considered indicative of our future performance. Our revenue has declined in recent periods, and we expect our revenue growth to be slower than in the past or to decline in future periods due to a number of factors, which may include slowing demand for our products and services, increasing competition, a decrease in the growth of our overall market, our failure for any reason to capitalize on growth opportunities, or the maturation of our business.

From 2014 to 2016, our annual revenue grew rapidly from \$745.4 million to \$2.2 billion. Although our annual revenue in 2016 was up 17% compared to 2015, our annual revenue in 2017 and 2018 declined compared to the prior year, and our revenue in 2019 declined 5% compared to 2018. In future periods, we could again experience a decline in revenue, or revenue could grow more slowly than we expect, which could have a material negative effect on our future operating results.

Because we have only a limited history operating our business at its current scale, it is difficult to evaluate our current business and future prospects, including our ability to plan for and model future growth. Our limited operating experience at this scale, combined with the rapidly evolving nature of the market in which we sell our products and services, substantial uncertainty concerning how these markets may develop, and other economic factors beyond our control, reduces our ability to accurately forecast quarterly or annual revenue. As such, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more developed and predictable market. Failure to manage our future growth effectively could have an adverse effect on our business, which, in turn, could have an adverse impact on our operating results and financial condition.

In addition, we have not consistently achieved profitability on a quarterly or annual basis. For example, we recorded a net loss of \$320.7 million in 2019 and a net loss of \$185.8 million in 2018. Lower levels of revenue and higher levels of operating expenses may result in limited profitability or losses in the future.

Source: Fitbit Inc. – Annual Report 2019

Exhibit 25.c – Fitbit Inc. Overview Of Future Financial Performance

If we fail to manage our operating expenses effectively, our financial performance may be negatively impacted.

Our success also depends on our ability to manage our operating expenses effectively. Our employee headcount and the scope and complexity of our business have increased significantly during recent years, although the number of employees decreased 1% on a year-over-year basis to 1,684 employees as of December 31, 2019. We have incurred significant net losses of \$320.7 million, \$185.8 million and \$277.2 million in 2019, 2018 and 2017, respectively.

In addition, we are investing in areas we believe will grow revenue and our operating expenses might increase as a result of these investments. The development of our products and services is complex and costly, and we typically have several products and services in development at the same time. Our research and development efforts may require us to incur substantial expenses to support the development of our next generation devices and other new products and services. Our research and development expenses were \$300.4 million, \$332.2 million and \$343.0 million, for 2019, 2018 and 2017, respectively.

We could also be required to continue to expand our sales and marketing, product development, and distribution functions; upgrade our business information technology systems and other processes and technology; and obtain more space for our workforce expansion. These efforts could increase the strain on our resources, and we could experience serious operating difficulties, including difficulties in hiring, training, and managing employees.

If our continued investments do not result in future revenue as expected, we may incur greater than expected losses or lower than expected profits, and our liquidity position may be materially adversely affected.

Conversely, in the future, we may again need to strategically realign our resources, adjust our product line and/or enact price reductions in order to stimulate demand, implement additional restructuring and workforce reductions, or downsize our facilities for a reduced workforce. Any such actions may result in the recording of special charges, including inventory-related write-offs, workforce reductions, or other restructuring costs. Additionally, our estimates with respect to the useful life or ultimate recoverability of our assets, including purchased intangible assets and tooling, could also change and result in impairment charges.

If we are unable to operate efficiently and manage our costs, we may continue to incur significant losses in the future and may not be able to achieve or maintain profitability.

Source: Fitbit Inc. – Annual Report 2019