

FitBit: Guardians of Data and Providers of Wellness

Privatization and security of user data and China-oriented strategy to pave the way to become a service provider.

Tobias Seemann – Pier Coppola – Alexander Teteryatnikov – Celine Vernin

Big Data comes with Big Responsibility

Massive incoming data

Responsibility to secure data and privacy

Opportunity to surpass our competitors in the pursuit of data privacy and security.

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1 How are we implementing and communicating differentiating Privacy and Security measures?

2 How to sustain growth in the Asia-Pacific Market?

3 How to leverage our competences in the move to becoming a service provider?


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Data Privacy & Security Concerns

Privacy concerns	Security concerns
<p>Legal</p> <p>Country specific and changing legal environment</p>	<p>Data Theft</p> <p>Insufficient protection</p>
<p>Societal</p> <p>Different approach to importance of Health-data privacy</p>	

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LEGAL: Privacy concerns




United States	China	EU
<p>Key features</p> <ul style="list-style-type: none"> Limited privacy laws and regulations Fragmented laws 	<p>Key features</p> <ul style="list-style-type: none"> Identity linked to online activity Data storage within country Government surveillance 	<p>Key features</p> <ul style="list-style-type: none"> Strict privacy laws Robust data protection regulations
Adaption on voluntary basis	Difficult to maintain privacy & data control	Need for high Privacy standard to comply with EU regulations

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SOCIETAL: Privacy concerns

Consumers are more concerned with health privacy in the EU than USA



Amount consumers would pay to protect their data

Category	United States	China	India	Great Britain	Germany
Government identification	\$119.20				
Credit card information					
Digital communication		\$4.48			
Web browsing			\$22.20		
Web search history					
Health history				\$50.00	\$194.20
Purchase history					
Contact information					
Demographic information					
Social profile					
Energy use					

Public concern with health data protection is LOW (USA, China, India, Great Britain, Germany)

Public concern with health data protection is HIGH (EU)

Source: Harvard Business review

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Key Takeaway



Focus Privacy protection plan on Europe

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Addressing Consumer Privacy Concerns in EU

Deploying the **CATE** approach

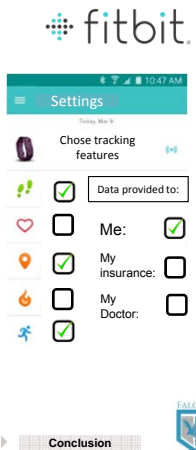
"The **success** of providers to develop new services and products using big data is linked to their capacity to build and maintain **consumer trust**." (European Commission)

- Control**
 - Customer in control of their data
- Accessibility**
 - Customer access to stored and used data
- Transparency**
 - how & what the data is used
- Educating**
 - Easy to understand policies

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Control: The customer decides

Deploying the CATE approach towards trust



- 1 Non Data Collection default**
No data will be tracked or stored by default
- 2 Customer privacy Selection menu**
Choice options of which data should be tracked
Choice of selected parties that are allowed to view the data
- 3 Right to be forgotten**
Customer can at any time decide to delete track records and modify initial choices

Source: AUCDD wearables report

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Accessibility: the customer receives

Deploying the CATE approach towards trust

Provide Access

Give the customer the opportunity to **download all collected data...**

- ...at any time.
- ...in comprehensible fashion (Excel, PDF) .



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Transparency: the customer knows

Deploying the CATE approach towards trust

Fitness and Health data information

- 1. Full disclosure**
- 2. Accessibility**

What data is collected?
How long is the data stored?
Who are the partners that customers can provide data access to?
How are these partners screened and selected?

Source

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Educating: the customer understands

Deploying the CATE approach towards trust

Customer complaints	New Policy description
"I don't understand the privacy and security policies"	Use simple and easy language
"I never know what I agree to when I accept the privacy policies of companies"	Clearly state key agreement terms
"I never read the privacy policies because they are so long and complicated"	Give a summary of the legal Privacy Policy

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Data Privacy & Security Concerns

Privacy concerns

Security concerns

Legal

Country specific and changing legal environment


Data Theft

Insufficient protection

Societal

Different approach to importance of Health-data privacy

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Security concerns place our legitimacy and brand perception at risk



Concerns

1. Interception and tampering by unwanted 3rd parties
2. Reliability and validity of data
3. Commercial or malicious purposes


➔

Consequences

1. Reputational loss
2. Lawsuits in negligence
3. Compromised competitive stance





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Aligning Fitbit organizational structure with mindfulness of security

1




Appointing Chief Information Security Officer (CISO)
To send signal to the market of increased commitment to data security

2




Information security team
Dedicated IT task force to uphold control of Fitbit products and service security

3



Monitoring new security measures & standards
Periodically and update accordingly


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Implementing lock-down strategy to secure user data

Partner lock-down

Hardware lock-down




- Screen cloud computing services (BAA)
- Audit app-providers periodically and enforce measures




- Randomization of Bluetooth identifier (LE)
- End-to-End Encryption and HTTPS

Network lock down




- Detecting Breaches of Data (IDS)
- Notifying customer of breach or loss of data
- Tracking file history and making this available

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HOW DO WE COMMUNICATE THIS?



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Marketing CATE to the consumer
Positioning Fitbit as more secure and private



“Safeguarding your fitness and information!”


Marketing campaign

- **Website:** promotion of new security & privacy standards
- **Social media:** produce an informational video
- **POS:** product representation and informational talks

Customer direct experience

- Customer can try the new privacy experience
- Can test the utility of the new Privacy platform (CATE)

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3 Questions to Answer


- 1 How are we implementing and communicating differentiating Privacy and Security measures?
- 2 How to sustain growth in the Asia-Pacific Market?
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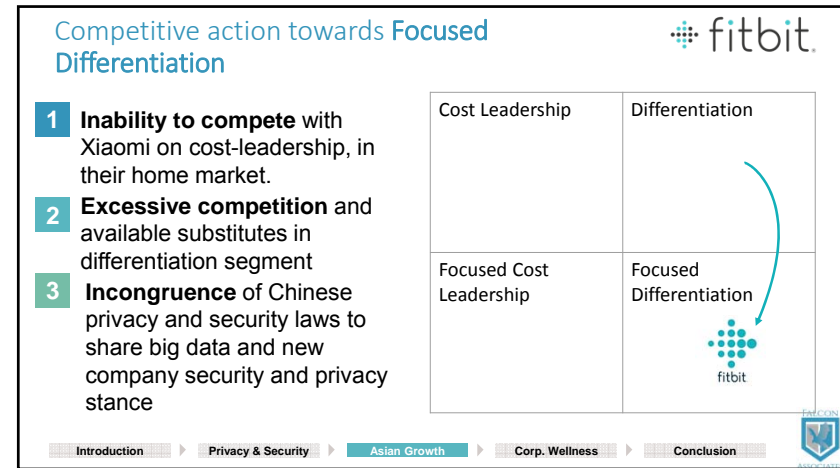
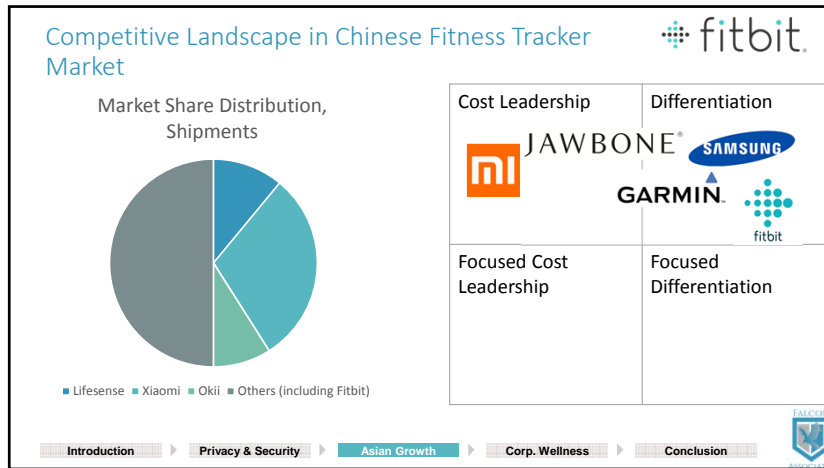
What market in Asia?
China – By Far Largest Market of Tracking Devices since 2015



Source: CCS Insight 2015

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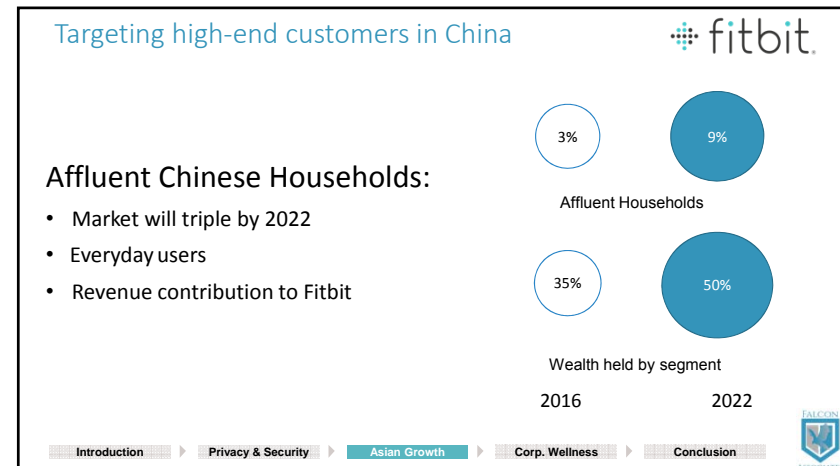




Key Takeaway Market analysis

“Pursue a **Focused Differentiation** Strategy in China”

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Affluent Chinese Market: Customer Characteristics

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- 1 Less Price sensitive
- 2 More respondent to digital marketing (60%)
- 3 Require physical purchasing experience
- 4 Affinity for fashionable products and individual style

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Key Takeaway from Customer Analysis

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“Target **High-end** customer with **affinity** for **fashionable healthcare products**”

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Tapping into this lucrative market

fitbit.



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Establishing Fitbit Creative Lab-China

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- Expanding **Creative-Lab initiative**
- Creating a **US based team** hiring **China-experts**
- **Gather intelligence** on design requirements
- **R&D collaboration**


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Personalize Chinese Product line




- Continuing high **technical** and **quality** standard
- Distinct **Chinese** product line
- **Customizable** bracelet

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Market product via Digital marketing campaign



- 1**
Strategy
- 2**
Message
- 3**
Channel

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Market product via Digital marketing campaign

Strategy
Establishing Brand recognition and creating value by targeted digital marketing campaign
Through a Fitbit Marketing Team specialized in the Asian market dynamics.

Message
Wearing Fitbit needs to be a statement. You are part of a community that cares about its own well being without sacrificing your style and fashion aspiration.
Capturing the world-wide trend towards sport, healthy nutrition and individuality.

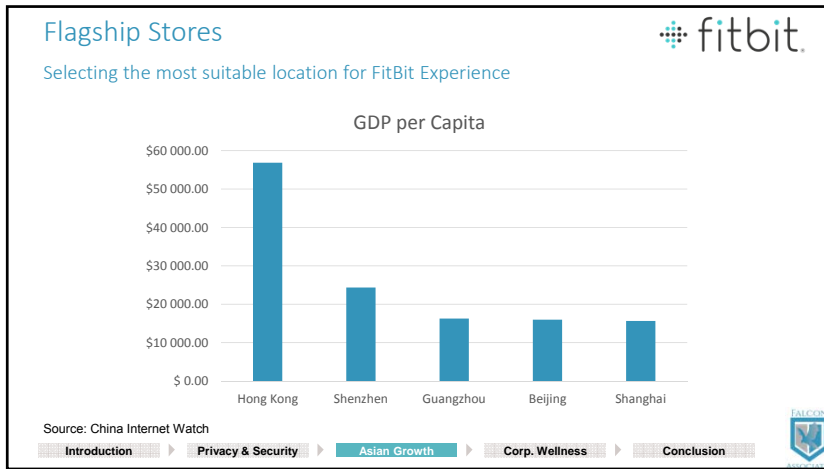
Channel
Contracting local celebrities and trend-setters
Gaining support form fashion bloggers
Advertising on social media

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Key takeaway of Marketing Campaign

Buying a Fitbit is a statement:
“I can be both healthy and stylish”

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Opening "Fitbit fashion and health experience"

Stores in Hong Kong and Shenzhen

Goal:

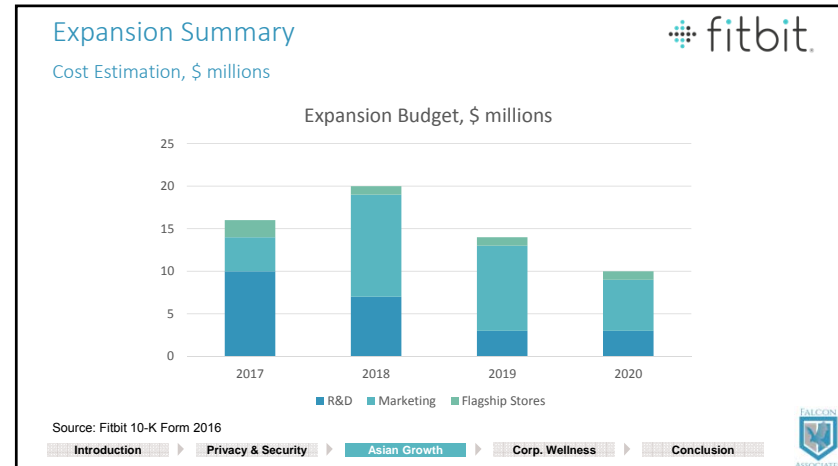
- Increasing **market presence** and effective **communicating** values
- Higher control** over customer relations
- Creation of **brand value** and **recognition**

- Flagship-stores** in main shopping streets next to **high-end fashion brands**

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Designing Fitbit fashion and health experience

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Result of Expansion fitbit.

Conquering a solid position in Chinese market
of fitness & activity trackers by 2020

2016

2020

Source: CCS Insight; Fitbit 10-K Form 2016

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3 Questions to Answer fitbit.

- 1 How are we implementing and communicating differentiating Privacy and Security measures?
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Embracing trends of preventive healthcare through real-time medical advice fitbit.

Developing algorithm

Medical assistance that responds to readings.

Real-time biometrics

Using real-time data to detect & signal abnormalities

Advising customer

"Your heartrate seems to be irregular. Visit a professional."

➔ Using newly developed Privacy and security Plan as market advantage

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Capitalizing on the trend of corporate wellness fitbit.

Healthcare spending for employers are rising

▼

Increased use of corporate wellness programs:

▼





15% of this spending preventable (Knapper, 2017)

Application to Corporations

Applications:
 → Jobs with largely stressful tasks
 → Financial advisers
 → Truck drivers subject to regulations

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Leveraging strong privacy and security stance to approach the corporate wellness market as a health consultant


Conclusion: Moving to being a service provider as a health consultant.

- Dealing with a secure/private entity
- security and privacy measures.

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Recapping it all...



- How to implement and communicate differentiating security/privacy measures?
 - CATE
 - Infusing importance of data management in Fitbit
 - Reconsider partner relations, and network and hardware features
- How to sustain growth in the Asia-Pacific market?
 - Target Chinese high-end sport wearables market
 - Enter with aggressive digital marketing and store channels
- How to leverage our competences in the move to becoming a service provider?
 - Developing preventive health competences
 - Leveraging our newly-legitimate position by approaching corporate wellness market
 - Moving to being a health consultancy


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Back-up Slides




Current Financial Analysis




	2016	2015 ⁽¹⁾	2014 ⁽¹⁾	2013 ⁽¹⁾	2012
(in thousands, except per share data)					
Consolidated Statements of Operations Data :					
Revenue	\$ 2,169,661	\$ 1,857,998	\$ 745,433	\$ 271,087	\$ 76,373
Cost of revenue ⁽²⁾	1,323,277	956,935	387,776	210,836	49,733
Gross profit	845,884	901,063	357,657	60,251	26,640
Operating expenses:					
Research and development ⁽²⁾	320,191	150,035	54,167	27,873	16,210
Sales and marketing ⁽²⁾	491,255	332,741	112,005	26,847	10,237
General and administrative ⁽²⁾	146,903	77,793	33,556	14,485	3,968
Change in contingent consideration	—	(7,204)	—	—	—
Total operating expenses	958,349	552,865	199,728	69,205	30,415
Operating income (loss)	(112,465)	348,198	157,929	(8,954)	(3,775)
Interest income (expense), net	3,156	(1,019)	(2,222)	(1,082)	(176)
Other income (expense), net	14	(59,230)	(15,934)	(3,649)	26
Income (loss) before income taxes	(109,295)	287,949	139,773	(13,685)	(3,925)
Income tax expense (benefit)	(6,518)	112,272	7,996	37,937	291
Net income (loss)	\$ (102,777)	\$ 175,677	\$ 131,777	\$ (51,622)	\$ (4,216)
Net income (loss) per share attributable to common stockholders⁽¹⁾:					
Basic	\$ (0.47)	\$ 0.88	\$ 0.70	\$ (1.32)	\$ (0.11)
Diluted	\$ (0.47)	\$ 0.75	\$ 0.63	\$ (1.32)	\$ (0.11)
Other Data :					
Devices sold ⁽³⁾	22,295	21,355	10,904	4,476	1,279
Active users ⁽³⁾	23,238	16,903	6,700	2,570	558
Registered device users ⁽³⁾	50,155	29,033	11,068	3,534	—
Adjusted EBITDA ⁽⁴⁾	\$ 29,985	\$ 389,879	\$ 191,042	\$ 79,049	\$ (2,401)
Non-GAAP free cash flow ⁽⁵⁾	\$ 80,894	\$ 78,591	\$ (7,721)	\$ 25,647	\$ (9,389)

Source: Fitbit 10-K Form 2016




Current Financial Analysis




FITBIT, INC. Consolidated Balance Sheets (In thousands, except share and per share amounts)		
	December 31,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 301,320	\$ 535,846
Marketable securities	404,693	128,632
Accounts receivable, net	477,825	469,260
Inventories	230,387	178,146
Prepaid expenses and other current assets	66,346	43,530
Total current assets	1,480,571	1,351,414
Property and equipment, net	76,553	44,501
Goodwill	51,036	22,157
Intangible assets, net	27,521	12,216
Deferred tax assets	174,097	83,020
Other assets	10,448	1,758
Total assets	\$ 1,820,226	\$ 1,519,066

Source: Fitbit 10-K Form 2016




Current Financial Analysis




LIABILITIES, Redeemable Convertible Preferred Stock, and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$ 313,773	\$ 260,842	
Accrued liabilities	390,561	200,099	
Deferred revenue	49,904	44,448	
Income taxes payable	7,694	2,868	
Total current liabilities	761,932	508,257	
Other liabilities	59,762	29,358	
Total liabilities	821,694	537,615	
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; 177,212,531 and 99,416,351 shares issued and outstanding as of December 31, 2016 and 2015, respectively	18	10	
Class B common stock, \$0.0001 par value, 350,000,000 shares authorized; 48,450,746 and 115,365,222 shares issued and outstanding as of December 31, 2016 and 2015, respectively	5	11	
Additional paid-in capital	859,345	737,820	
Accumulated other comprehensive income (loss)	(978)	691	
Retained earnings	140,142	242,919	
Total stockholders' equity	998,532	981,451	
Total liabilities and stockholders' equity	\$ 1,820,226	\$ 1,519,066	

Source: Fitbit 10-K Form 2016



Current Financial Analysis




Key Findings

- +++
- Revenue increase = 17%
- Increase in R&D = over 100%
- Increase in S&M ≈ 50%
- No Long-Term Liabilities
- Major Cash Assets
- Positive Adjusted EBITDA
- Growth-Oriented Investments

- ---
- Net Loss = 102.7 million
- Low GPM = 39% (2015 – 49%)
- Inability to Bear Long-Term Debt
- Share Price Down by 62%
- Adjusted ROS = 1.5%

Source: Fitbit 10-K Form 2016





Current Financial Analysis

Underlying reasons of performance

- Failure of Fitbit Blaze
- Losing Market Share to Competitors
- Dramatic Increase in R&D
- “Stuck in the Middle”
- Very High Expectations
- Litigation Payments to Jawbone
- Operations Inefficiencies

Source: Fitbit 10-K Form 2016



Operations Analysis

Difficulties Keeping Customers Satisfied

- +++
- Secured Market Leadership
- New Registered Users = 42%

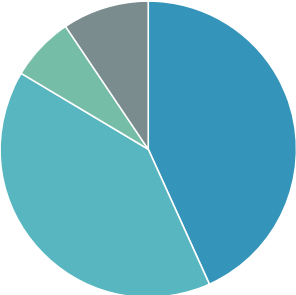
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- Growth of Sales (units) = 4.4%
- Active Users = 46% (2015 – 58%)
- Paid Subscriptions (est.) ≤ 8%
- Short Period of Exploitation

Source: Fitbit 10-K Form 2016



Existing Retail Channels

Differentiation or Overdependence



Source: intelligence.slice.com

- Fitbit
- Amazon
- BestBuy
- Others

Mission Statement

Highlighting Key Values

- “Fitbit helps people lead healthier, more active lives by empowering them with data, inspiration, and guidance to reach their goals”

Source: Fitbit 10-K Form 2016

