Opinion Lex

Fitbit/Alphabet: step down

Deal to buy the fitness device maker seems odd given it has failed to keep pace with Apple

NOVEMBER 7 2019

Alphabet's decision to pay $2.1bn for Fitbit looks even more peculiar in the wake of the fitness tracker company's third-quarter results. Fitbit might have once led the pack on health tech but that was a long time ago. Falling demand for its devices means revenues in the past three months are down 12 per cent on the previous year. It reported a net loss of $52m on revenue of $345m.

At least the stakes in this deal are relatively low for Alphabet. Fitbit may cost the company more than YouTube did but that deal was 13 years ago — a time when Google's enterprise value was one-ninth the $785bn that parent company Alphabet's is now. Fitbit's expected revenue of $1.5bn will not alter the trajectory of Alphabet's $150bn much. Nor will the company's 28m active monthly users change a company that already boasts eight products with over 1bn monthly active users each, including Google Search, Gmail and YouTube.

Yet this is why paying a big premium looks overly generous. The deal prices Fitbit shares at $7.35 each — 70 per cent more than they were trading before speculation about a deal began at the end of last week.

More confusing still: Fitbit is telling customers that the data it collects will not be used for targeted advertising. It seemed commonsense to expect Alphabet to find a way to make use of the health monitoring data available. Perhaps it will still be able to add the information to its vast data collection.

Mostly it seems as if Alphabet simply wants to find a way into smartwatches. Fitbit is likely to be slotted into the company's Wear OS platform rather than run as an independent unit, added to the engineering and design teams the company spent $1.1bn buying from smartphone maker HTC.

This could be a fast-growing business. Apple does not split out its own Watch sales but the company's wearables unit, which includes Watches, reported $5.5bn in sales in the past quarter — up from $3.7bn a year ago. Its decision to focus on specialist health tech, including sensors that make the smartwatch into an electrocardiogram, drew positive attention.

Alphabet is likely to want to do something similar. But using the expertise of a company that has failed to keep up with Apple is an odd way to go about it.