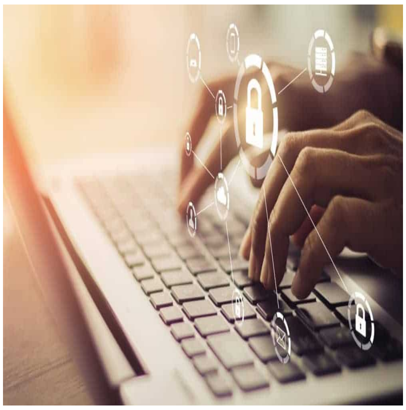

For Alphabet, Just OK Is Never Enough

Description

Alphabet (NASDAQ: GOOGL) (NASDAQ: GOOG) is a powerhouse in the tech world, but even the strongest companies can have an off period. As announced this week, it missed its earnings forecast for the third quarter, and while it generally hit its guidance on other metrics, the market took a little bite out of its share price in response.

In this segment of the Oct. 29th *MarketFoolery* podcast, host Chris Hill and MFAM Funds' Bill Barker discuss the company's growth, its outlook, and the wider reasons why the market was unimpressed. But for those looking ahead rather than behind, they also dig into Alphabet's as-yet-unconfirmed plans to make a bid for **Fitbit** (NYSE: FIT).

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This video was recorded on Oct. 29, 2019.

Chris Hill: We're going to start, though, with Alphabet. Shares down a couple of percent because Alphabet's third quarter… it looks to me like a speed bump, but you looked at it more closely than I did.

Bill Barker: Why would you assume that?

Hill: Well, I'll tell you why. They were light on earnings. Everything else was essentially as expected —

Barker: You're not giving yourself enough credit. Look at you, revealing how closely you've looked at it already.

Hill: I don't want for one second for anyone listening to this podcast to think, for one second, that I'm an analyst. Over the years, I've gotten that comment from time to time. "You're a financial analyst." No. I'm not. [laughs] I'm really not!

Barker: What do you call yourself at parties?

Hill: [laughs] I don't really go to parties. Let's get back to Alphabet's third quarter. This did look like they missed on earnings. Revenue was in line with expectations. The different divisions seemed to be performing about as expected. They didn't really do anything radical to the guidance. So that's why I look at this and say, I get why the stock is down 2% for a company and a business that has otherwise been crushing it for the last 15 years.

Barker: Yeah, it was up 2% yesterday, down 2% today. I think it's up about 5% over the last month. It's a little bit of, I don't know, taking some profits kind of move, rather than a, "Oh, my God, there's something we didn't see here" kind of move. Continuing to grow mid-teens, which is awfully impressive. Top line growth was up 17.5% year over year. It continues to be an incredibly large company, growing faster than you could really have hoped for.

Hill: Well, one way that companies grow is through acquisition. Shares of Fitbit are up 30% since Monday morning on reports that both Fitbit and Alphabet are not commenting on, that Alphabet is going to buy Fitbit. Ruth Porat, the CFO of Alphabet, was asked about this, and declined to comment. No reason she necessarily needed to, although it's always nice when executives comment on things. Certainly, Alphabet has the money. And for a while now, I've been throwing out there about Fitbit —

Barker: Do you get a cut if this deal goes through, for putting this one together?

Hill: [laughs] You know I don't like to comment on that.

Barker: [laughs] You're pulling a Porat here.

Hill: I'm pulling a Ruth Porat, I'm going to decline to comment on that. No, I mean, Fitbit has some level of brand equity. There's a basic interface that has led to some level of success. There is some value to Fitbit. For a couple of years now, it has looked like, at the right price, someone with deep pockets would come along and make them some type of offer. And if the reports from Reuters and other news agencies are to be believed, that has happened, and it just hasn't been formalized and announced yet.

Barker: Yeah. I think that it makes sense on the level of Google being a serial acquirer of ways to develop, first of all, but also acquire ways to get personalized data and then monetize it. Fitbit is in the business of collecting personalized data on you. Ever used one?

Hill: A Fitbit? No.

Barker: Well, if you did, there would be all sorts of data about you captured. The question is whether you want Google to capture it. You do, because you're an advisor on this one. Therefore, you've got a stake in it, or at least you've got some mental stake in it. Like, "I suggested this, therefore it must be a good idea."

Hill: Look, any reports of my having dinner with Fitbit executives earlier this year, and then later in the year executives of Alphabet, those are rumors and I'm not going to comment on them.

Barker: Well, if Fitbit goes this direction, and, as you say, Google certainly has the money to do it, they put a fair amount of money in the last quarter to share buybacks, which is in a sense the absence of an idea of what to do with your money. And they are not typically running out of ideas. Certainly, the market is giving this report credibility, in terms of the likelihood.

Hill: Last thing on this topic, and then we'll move on. Right now — and this is obviously after a 30% rise — Fitbit's market cap is just under $1.5 billion. Let's assume that this deal goes through. Maybe there's even a slight premium to what we're seeing today. I don't know, let's call it $1.6 billion, $1.7 billion. How confident are we that Alphabet is going to make more of this acquisition than they made of, say, the YouTube acquisition that they made back in 2007, for which they paid roughly the same amount of money? If memory serves me correctly, I believe they paid $1.6 billion for YouTube, and all they did with that is turn it into the second-biggest search engine in the United States.

Barker: I would bet that it'll never come close in terms of value creation to YouTube. That's a tough standard. Also, if you were to compare, what do you put more faith in? People taking care of their health, or people sitting around and watching stuff? Just as a proposition, right?

Hill: I'm going to bet on the latter.

Barker: I'm going to bet on the latter. Google wisely bet on the latter. Now, that's not to say that people aren't spending money taking care of themselves and aren't interested in how to take care of themselves better. But I think that YouTube serves more of the lethargy that people are prone to.

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