JAWBONE – Overview of Company Model
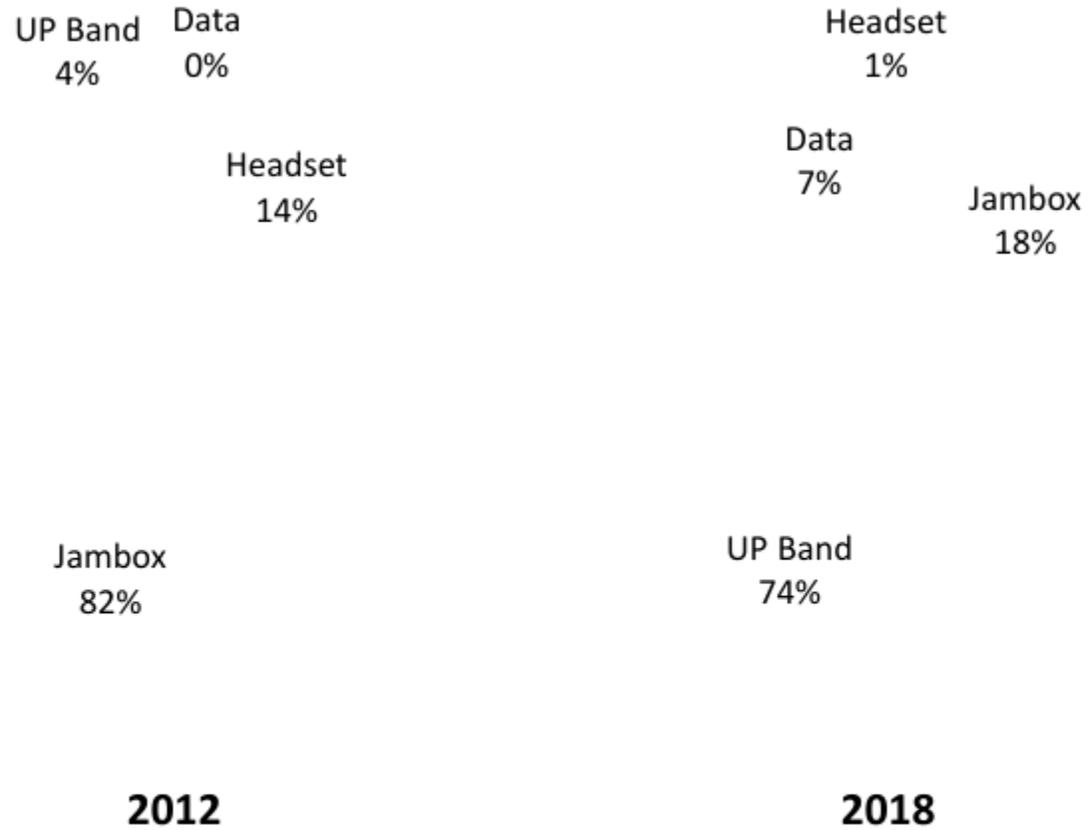
April 10, 2013

Jawbone – Company Revenue Model

	2012A	2013E	2014E	2015E	2016E	2017E	2018E	CAGR
Units (000s)								
UP Band	111	3,510	8,775	17,549	30,712	46,067	59,888	185%
Jambox	1,583	1,853	3,057	4,586	6,053	7,142	8,000	31%
Headset	651	694	777	820	850	865	866	5%
Net Revenue / Unit								
UP Band	78.63	69.37	61.74	55.56	52.23	49.62	47.14	-8%
Jambox	123.95	120.43	114.40	102.96	96.79	90.98	85.52	-6%
Headset	53.80	52.99	50.31	47.85	45.53	43.37	41.38	-4%
Revenue ($ 000s)								
UP Band	8,719	243,479	541,741	975,133	1,604,094	2,285,834	2,823,005	162%
Jambox	196,278	223,120	349,740	472,149	585,843	649,817	684,127	23%
Headset	35,005	36,762	39,117	39,231	38,681	37,517	35,839	0%
Software/Services	-	-	18,820	47,050	94,100	178,790	268,185	NA
Total	**240,003**	**503,361**	**949,418**	**1,533,564**	**2,322,717**	**3,151,958**	**3,811,155**	59%

Sales Mix by Revenue

2012

UP Band
4%

Data
0%

Headset
14%

Jambox
82%

2018

Headset
1%

Data
7%

Jambox
18%

UP Band
74%

2012

2018

➤ Company model contemplates a dramatic conversion from speakers to wearable technology.

Company model assumes 'iPod-like' adoption of UP

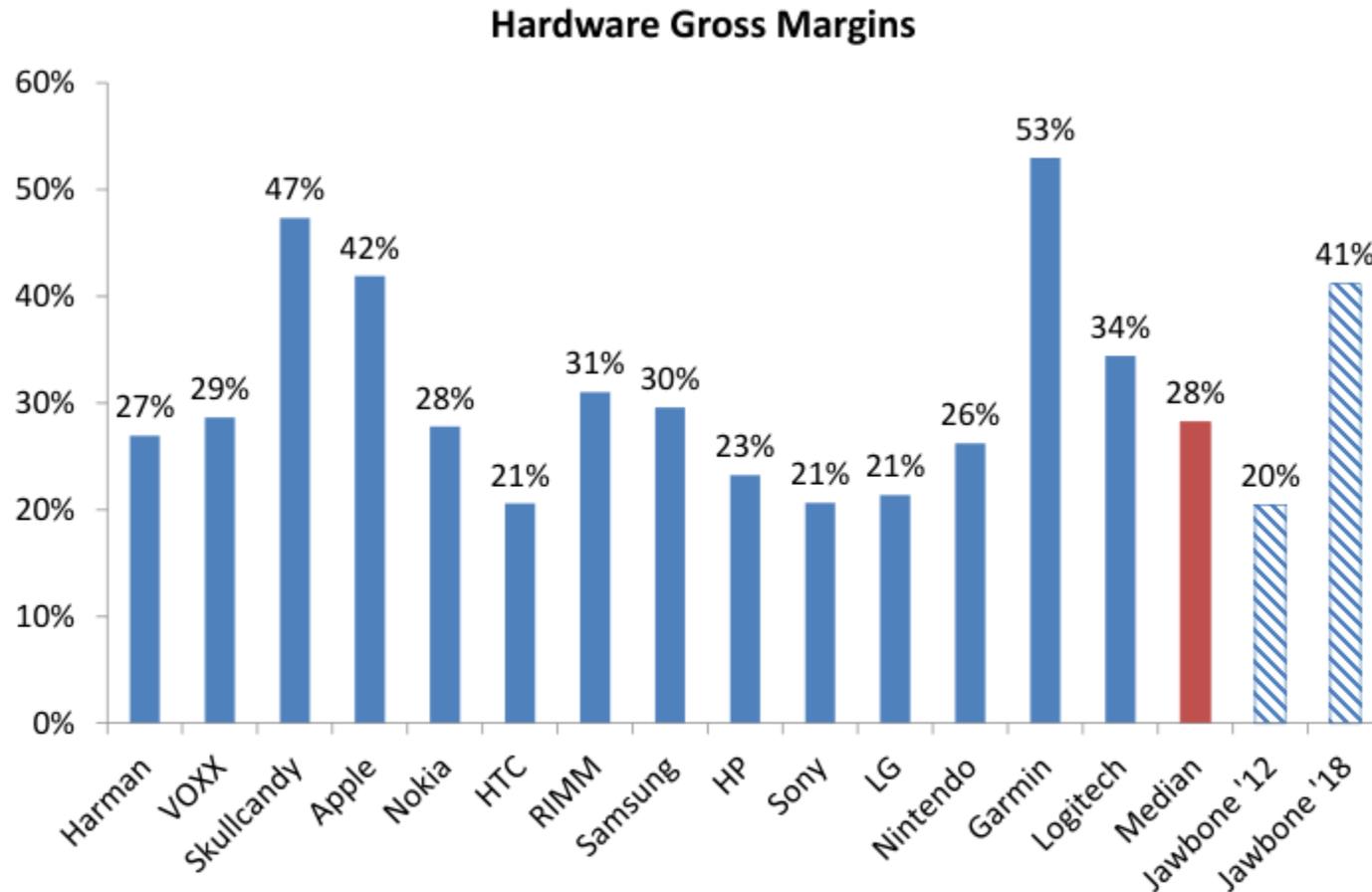**Cummulative Unit Sales (millions)**
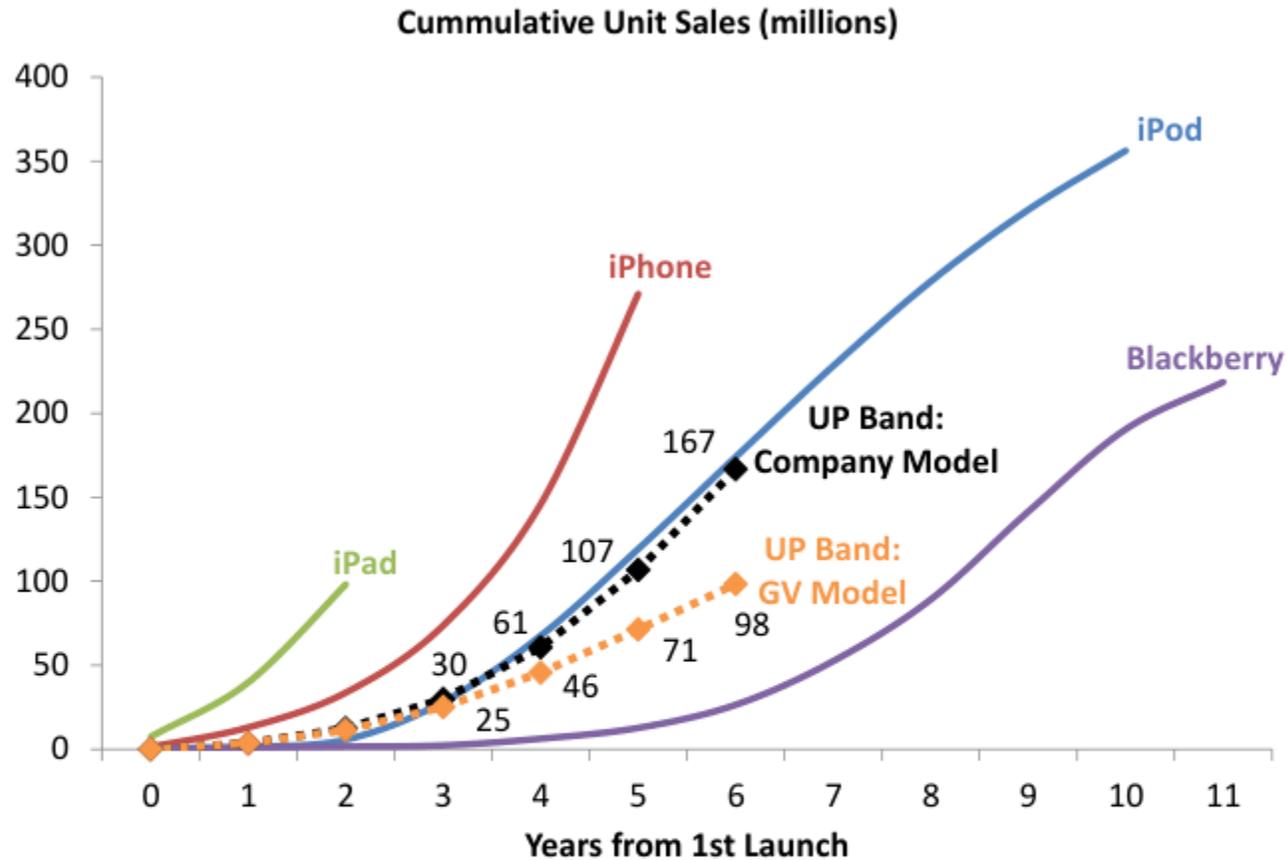
Jawbone's financial model assumes an UP adoption curve that closely matches the historical results for the iPod. Not only is this an aggressive benchmark, but we are concerned that such a close match may indicate the plan is not based on a rigorous bottoms-up analysis.

Company assumes significant gross margin expansion

Gross Margin (%)

■ Jambox   ■ UP Band
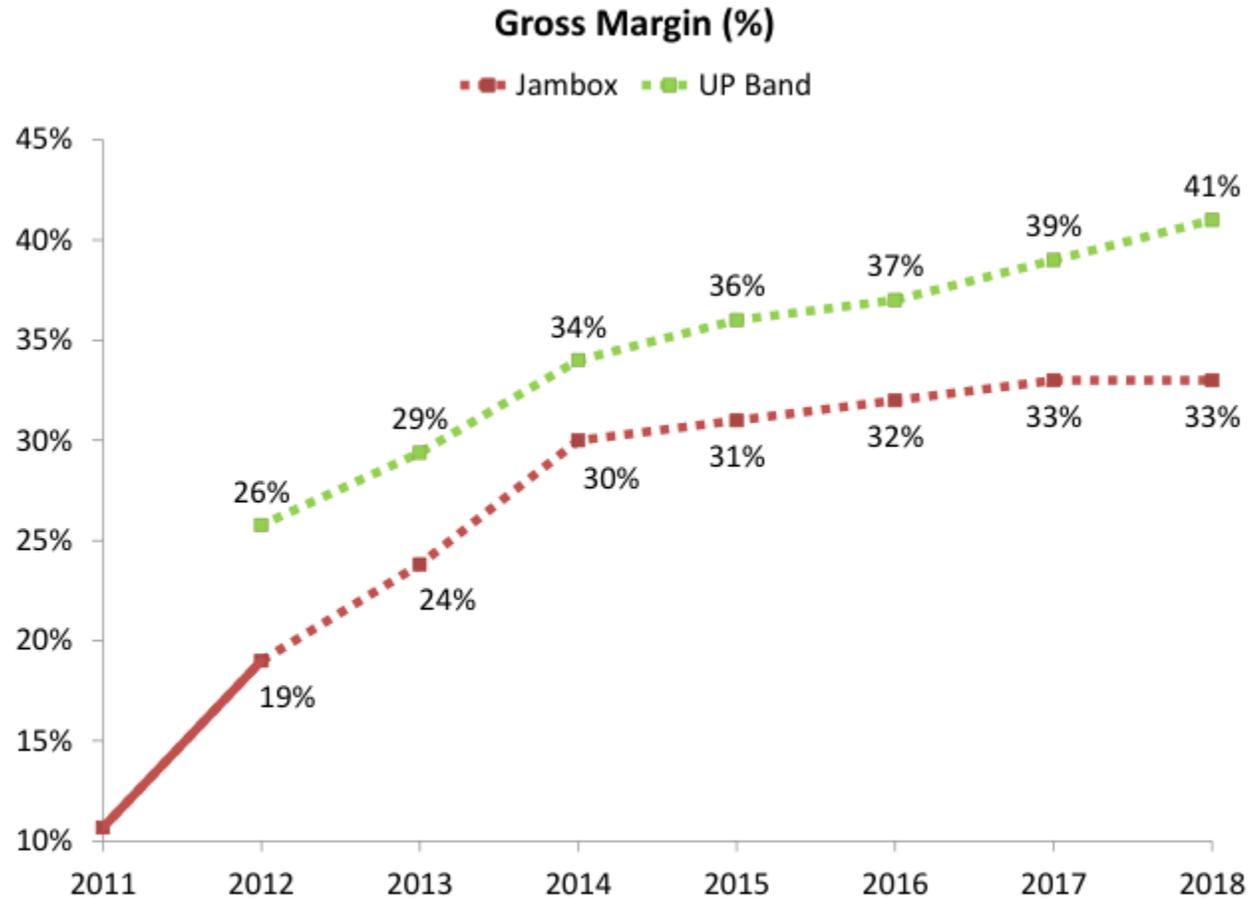
Jawbone assumes gross margin will expand 15% over the next six years. The Company expects these margin gains will come from 'value-engineering' developed by its contract manufacturers.

Projected margins are well above industry averages

Hardware Gross Margins

Harman 27%, VOXX 29%, Skullcandy 47%, Apple 42%, Nokia 28%, HTC 21%, RIMM 31%, Samsung 30%, HP 23%, Sony 21%, LG 21%, Nintendo 26%, Garmin 53%, Logitech 34%, Median 28%, Jawbone '12 20%, Jawbone '18 41%

➤ Jawbone's blended hardware gross margin is projected to be 13 percentage points above the hardware industry median. Again, Jawbone projections are 'Apple-like'.

Projected operating expenses are below industry averages

Operating Expenses / Sales
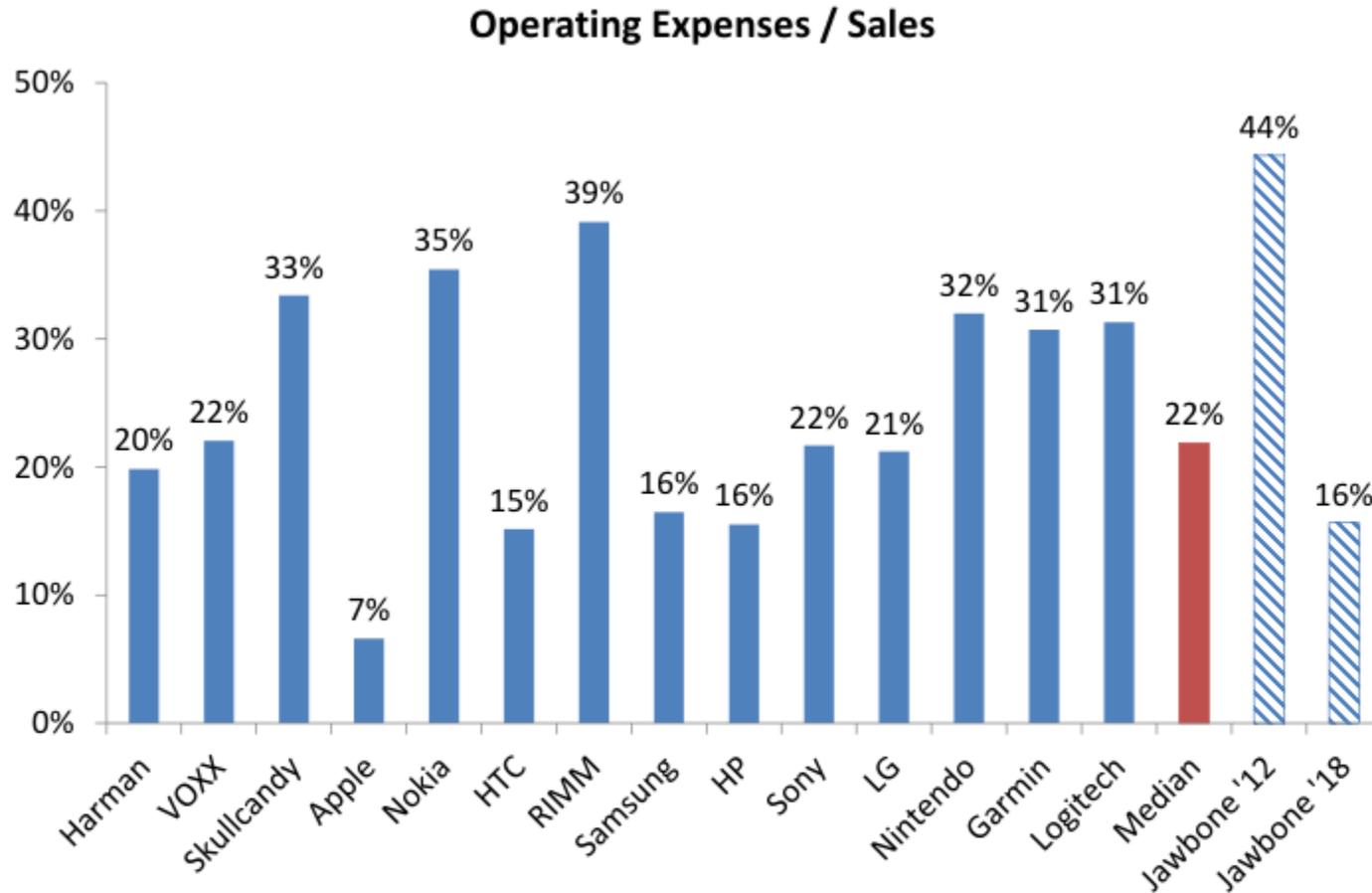
Jawbone forecasts operating expenses to be 6 percentage points of revenue below the hardware industry median.

Hardware companies trade well below Jawbone multiple

Comps	EV	EV / Sales	Gross Margin	OPEX / Sales	EBIT Margin
Audio					
HARMAN INTERNATIONAL	$2,717 M	0.6x	26.9%	19.8%	7.1%
VOXX INTERNATIONAL CORP	$411 M	0.4x	28.6%	22.0%	6.6%
SKULLCANDY INC	$130 M	0.7x	47.3%	33.4%	13.9%
Median		**0.6x**	**28.6%**	**22.0%**	**7.1%**
Mobile					
APPLE INC	$272,026 M	2.1x	41.9%	6.6%	35.3%
MOTOROLA MOBILITY*	$9,813 M	0.8x	n.a.	n.a.	n.a.
NOKIA OYJ	$9,358 M	0.3x	27.8%	35.4%	-7.6%
HTC CORP	$5,501 M	0.8x	20.6%	15.2%	5.5%
RESEARCH IN MOTION	$5,046 M	0.4x	31.0%	39.1%	-8.1%
Median		**0.8x**	**29.4%**	**25.3%**	**-1.1%**

*Motorola Mobility was acquired by Google in '12 at the above multiples

Comps	EV	EV / Sales	Gross Margin	OPEX / Sales	EBIT Margin
Other Hardware					
SAMSUNG ELECTRONICS	$186,325 M	1.3x	29.6%	16.5%	13.1%
HEWLETT-PACKARD CO	$59,424 M	0.4x	23.2%	15.5%	7.7%
SONY CORP	$22,883 M	0.2x	20.6%	21.7%	-1.0%
LG ELECTRONICS INC	$16,350 M	0.6x	21.4%	21.2%	0.2%
NINTENDO CO LTD	$5,435 M	0.7x	26.2%	32.0%	-5.8%
GARMIN LTD	$3,856 M	1.9x	53.0%	30.7%	22.2%
LOGITECH INTERNATIONAL	$894 M	0.5x	34.4%	31.3%	3.1%
Median		**0.6x**	**26.2%**	**21.7%**	**3.1%**
Jawbone '18					
Company Model	$8,812 M	2.3x	41.2%	15.7%	25.6%
GV Model	$2,989 M	1.5x	28.0%	22.0%	6.0%

➡ Jawbone assumes an exit multiple of 2.3x revenue, whereas comparable hardware companies trade below 1.0x revenue on average.

Expected returns using Company model

	2012A	2013E	2014E	2015E	2016E	2017E	2018E	CAGR
Revenue								
UP Band	8,719	243,479	541,741	975,133	1,604,094	2,285,834	2,823,005	162%
Jambox	196,278	223,120	349,740	472,149	585,843	649,817	684,127	23%
Headset	35,005	36,762	39,117	39,231	38,681	37,517	35,839	0%
Software/Services	-	-	18,820	47,050	94,100	178,790	268,185	NA
Total	**240,003**	**503,361**	**949,418**	**1,533,564**	**2,322,717**	**3,151,958**	**3,811,155**	**59%**
Gross Margin								
UP Band	2,247	71,538	184,192	351,048	593,515	891,475	1,157,432	183%
Jambox	37,293	53,103	104,922	146,366	187,470	214,440	225,762	35%
Headset	9,556	12,095	11,777	11,824	11,675	11,348	10,872	2%
Software/Services	-	-	12,986	32,465	63,988	119,789	177,002	NA
Total	**49,096**	**136,735**	**313,877**	**541,703**	**856,648**	**1,237,052**	**1,571,068**	**78%**
% Gross Margin	*20.5%*	*27.2%*	*33.1%*	*35.3%*	*36.9%*	*39.2%*	*41.2%*	
(-) R&D	(41,028)	(69,397)	(93,686)	(115,234)	(139,433)	(161,742)	(182,769)	28%
(-) S&M	(48,387)	(76,325)	(125,936)	(182,608)	(242,868)	(293,870)	(346,767)	39%
(-) G&A	(16,959)	(18,603)	(26,044)	(35,160)	(45,708)	(58,506)	(67,282)	26%
Operating Profit	**(57,278)**	**(27,590)**	**68,210**	**208,702**	**428,639**	**722,934**	**974,251**	**NA**
% Operating Margin	*-23.9%*	*-5.5%*	*7.2%*	*13.6%*	*18.5%*	*22.9%*	*25.6%*	
(-) Taxes	-	-	-	(12,522)	(175,742)	(296,403)	(399,443)	NA
(+) D&A	4,531	9,756	17,820	26,270	34,672	39,445	37,473	42%
(-) Capex	(4,366)	(31,470)	(21,470)	(30,195)	(39,399)	(43,828)	(41,637)	46%
(+/-) Δ in Work. Cap.	(31,495)	(38,436)	(12,269)	(27,873)	(37,823)	(45,734)	(45,734)	6%
Free Cash Flow	**(88,608)**	**(87,740)**	**52,292**	**164,382**	**210,346**	**376,414**	**524,910**	**NA**
Dividends to GV	-	-	$416	$1,306	$1,672	$2,991	$4,172	
Revenue Multiple	5.0x						2.3x	-12%
Equity Valuation	1,193,228						8,812,257	40%
Shares	233,058						246,064	1%
Value per Share	$5.12						$35.81	38%
GV Shares	1,956						1,956	0%
Value of GV Stake	$10,000						$70,033	38%
GV MOI							8.1x	
IRR							44%	

Jawbone management has modeled the Company's prospects to near perfection:

1. iPod-like adoption for the UP band

2. Apple-type gross margins

3. Exit multiple in excess of all current comparable company trading multiples

What are expected returns using more realistic assumptions?

The next slide shows the expected returns for an investment in Jawbone using what we think are a more realistic set of assumptions:

1. Adoption rates for the UP that are roughly halfway between the iPod and the Blackberry. We would still consider this an impressive target.

2. Zero revenues from 'data' over the next 6 years. We aren't yet convinced that the current or proposed generations of the UP will really provide valuable data for health care providers and insurance companies. For two main reasons:

    a) It is generally the healthier person that opts to purchase and wear the UP band or one of its competitors (Fitbit, etc.)

    b) UP band sensors (current and planned) don't provide data that insurance companies can use to better predict major diseases: heart disease/hypertension, diabetes, stroke, or cancer*

3. Margins in-line with hardware industry averages: ~28% gross margin, and ~6% operating profit margin.

4. Exit multiples more in-line with current trading multiples for hardware companies, adjusted for higher expected growth: ~1.5x revenue

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*Conversation with Rob Korpman MD - CEO of CentriHealth Inc, a leader in health informatics.

More realistic assumptions yield only a modest expected return

	2012A	2013E	2014E	2015E	2016E	2017E	2018E	CAGR
Revenue								
UP Band	8,719	241,544	483,722	761,848	1,074,232	1,275,663	1,272,452	129%
Jambox	196,278	223,149	349,735	472,194	585,945	649,955	684,249	23%
Headset	35,005	36,772	39,107	39,234	38,703	37,567	35,931	0%
Software/Services	-	-	-	-	-	-	-	NA
Total	240,003	501,465	872,564	1,273,276	1,698,880	1,963,185	1,992,633	42%
Gross Margin								
UP Band	2,247	67,632	135,442	213,317	300,785	357,186	356,287	133%
Jambox	37,293	53,110	97,926	132,214	164,065	181,988	191,590	31%
Headset	9,556	10,296	10,950	10,986	10,837	10,519	10,061	1%
Software/Services	-	-	-	-	-	-	-	NA
Total	49,096	131,038	244,318	356,517	475,686	549,692	557,937	50%
% Gross Margin	20.5%	26.1%	28.0%	28.0%	28.0%	28.0%	28.0%	
(-) R&D	(41,028)	(86,002)	(135,967)	(178,447)	(211,461)	(213,582)	(185,548)	29%
(-) S&M	(48,387)	(94,588)	(149,541)	(196,262)	(232,572)	(234,905)	(204,071)	27%
(-) G&A	(16,959)	(23,054)	(36,448)	(47,836)	(56,686)	(57,254)	(49,739)	20%
Operating Profit	(57,278)	(72,607)	(77,639)	(66,027)	(25,032)	43,950	118,580	NA
% Operating Margin	-23.9%	-14.5%	-8.9%	-5.2%	-1.5%	2.2%	6.0%	
(-) Taxes	-	-	-	-	-	(2,637)	(48,618)	NA
(+) D&A	4,531	8,966	14,795	19,213	21,593	20,622	21,655	30%
(-) Capex	(4,366)	(28,923)	(17,825)	(22,084)	(24,537)	(22,913)	(24,061)	33%
(+/-) Δ in Work. Cap.	(31,495)	(35,325)	(10,186)	(20,385)	(23,556)	(23,909)	(27,498)	-2%
Free Cash Flow	(88,608)	(127,888)	(90,855)	(89,283)	(51,532)	15,113	40,058	NA
Dividends to GV	-	-	$0	$0	$0	$99	$262	
Revenue Multiple	5.0x						1.5x	-18%
Equity Valuation	1,193,228						2,988,949	17%
Shares	233,058						299,155	4%
Value per Share	$5.12						$9.99	12%
GV Shares	1,956						1,956	0%
Value of GV Stake	$10,000						$19,538	12%
GV MOI							2.0x	
IRR							12%	

Annotations:

- 25 percentage point shortfall in unit sales growth rate each period
- No revenue attributed to data
- Margins expand to meet industry averages
- Operating expenses fall linearly as a percentage of revenue until they meet industry averages
- Sales multiple more in line with public comps, adjusted for higher expected growth
- Additional dilution as negative cash flows persist longer, requiring new equity raises
- Still impressive adoption + industry average margins + market multiple (adjusted for growth) => modest return

Using a (still) robust assumption for UP adoption, coupled with industry averages for margins and exit multiples, an investment in Jawbone at the proposed $1.188 Bn valuation would yield only modest returns.

The entry multiple of 5x revenue is high relative to current trading multiples for comparable hardware companies, even adjusted for growth. Expected multiple contraction during the investment period will make it difficult to realize a meaningful return.

Despite the valuation coming at a discount to the last round (and the proposed near-term round), we are concerned that over a medium-term hold period this investment will not produce venture capital type returns.

Appendix

Return sensitivity for GV model

MOI Sensitivity (Exit Multiple = 2.0x Revenue)

Operating Margin	UP Adoption (% haircut to company model)					
	0%	-5%	-10%	-15%	-20%	-25%
26%	6.3x	5.6x	5.0x	4.5x	4.0x	3.6x
21%	6.0x	5.3x	4.8x	4.3x	3.8x	3.4x
16%	5.6x	5.0x	4.5x	4.0x	3.6x	3.2x
11%	5.1x	4.6x	4.1x	3.7x	3.3x	2.9x
6%	4.5x	4.1x	3.7x	3.3x	2.9x	2.6x

MOI Sensitivity (Exit Multiple = 1.5x Revenue)

Operating Margin	UP Adoption (% haircut to company model)					
	0%	-5%	-10%	-15%	-20%	-25%
26%	4.9x	4.4x	3.9x	3.5x	3.2x	2.8x
21%	4.6x	4.1x	3.7x	3.3x	3.0x	2.7x
16%	4.3x	3.8x	3.4x	3.1x	2.7x	2.5x
11%	3.9x	3.5x	3.1x	2.8x	2.5x	2.2x
6%	3.4x	3.1x	2.8x	2.5x	2.2x	**2.0x**

GV expected return

MOI Sensitivity (Exit Multiple = 1.0x Revenue)

Operating Margin	UP Adoption (% haircut to company model)					
	0%	-5%	-10%	-15%	-20%	-25%
26%	3.5x	3.2x	2.8x	2.5x	2.3x	2.1x
21%	3.3x	2.9x	2.6x	2.3x	2.1x	1.9x
16%	3.0x	2.7x	2.4x	2.1x	1.9x	1.7x
11%	2.7x	2.4x	2.1x	1.9x	1.7x	1.5x
6%	2.3x	2.1x	1.9x	1.7x	1.5x	1.3x

MOI Sensitivity (Exit Multiple = 0.5x Revenue)

Operating Margin	UP Adoption (% haircut to company model)					
	0%	-5%	-10%	-15%	-20%	-25%
26%	2.1x	1.9x	1.7x	1.6x	1.4x	1.3x
21%	1.9x	1.7x	1.5x	1.4x	1.3x	1.1x
16%	1.7x	1.5x	1.3x	1.2x	1.1x	1.0x
11%	1.4x	1.3x	1.1x	1.0x	0.9x	0.8x
6%	1.2x	1.1x	1.0x	0.9x	0.8x	0.7x