

# Acquisition of Vivity Labs (Fit Brains)

Investor Presentation  
December 19, 2013



# Transaction Summary

Agreement to acquire leading mobile brain fitness company, Vivity Labs Inc. (“Vivity”)

US\$12MM purchase price on a debt-free basis for 100% of Vivity stock

Expected to close January 2, 2014

Vivity expected to generate ~\$2.2MM in net bookings in 2013

Among top grossing\* apps in iTunes Education category in 2013

*\*Average rank of 6<sup>th</sup> among iTunes top grossing education apps in U.S. during 2013*

# Vivity Labs Inc. (“Fit Brains”) Company Profile



- **Provider of mobile brain-training apps for adults and kids on the iOS and Android platforms**
- **Founded in 2007 – team of 12 based in Vancouver, Canada**
- **2013 expected net bookings ~\$2.2MM**
- **One of iTunes’ top grossing education apps in the U.S. during 2013, and with over 60K ratings averaging 4.5 stars worldwide<sup>1</sup>**
- **Localized in 10 languages**

*1. Average rank of 6<sup>th</sup> among iTunes top grossing education apps during 2013; source: Vivity Labs and Distimo Mobile App Data (U.S. Only; Education Category).*

# Strategic Rationale

## Brand Extension

- Further extends the Rosetta Stone brand beyond language into brain fitness -- a natural adjacency

## Multiple Product Leverage

- Sell and cross-sell multiple products and/or bundles to customers - language, literacy, and brain fitness

## High Potential Opportunity

- New, highly fragmented market with few large incumbents

## Digital & Mobile Focus

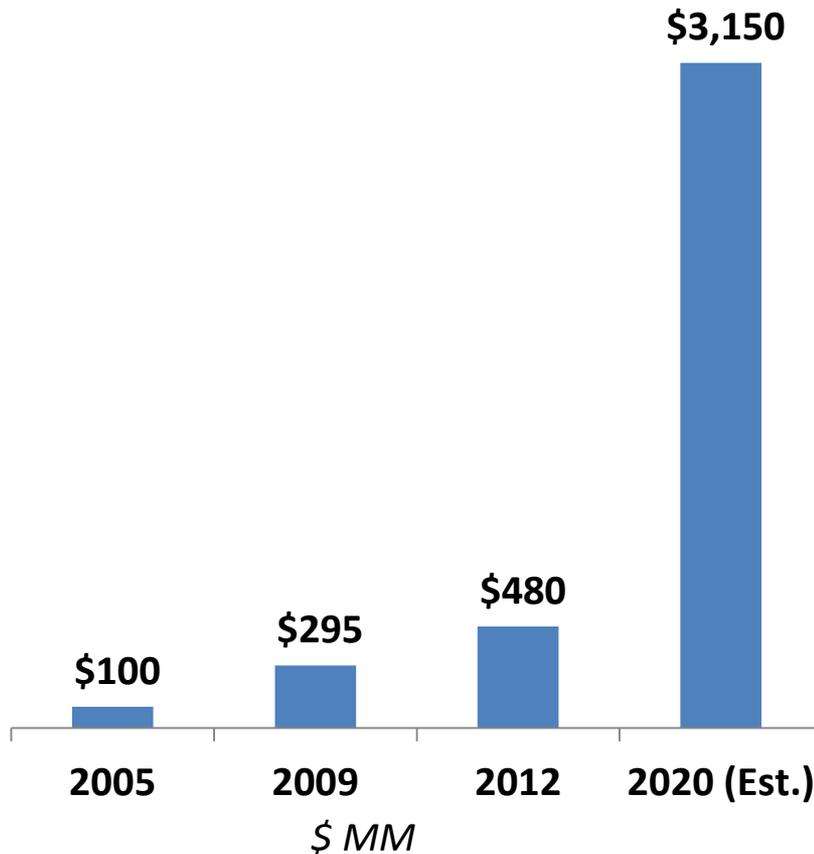
- Accelerates shift by acquiring an experienced mobile team with successful mobile products

## High Quality Revenue

- High potential for recurring revenue from subscription model

# Brain Fitness Sector Has High Growth Potential

***The Brain Fitness software industry is expected to grow to \$3B by 2020***



- A 2010 AARP survey found that “staying mentally sharp” is the absolute top priority, ranking higher than even Social Security and physical health.
- An aging population is a major driver of growth -- globally, the number of “seniors” is expected to triple to 1.5 billion over the next 30 years.

Source: SharpBrains 2012 Report

# Vivity Product Portfolio

## Existing Trainer Apps



Fit  
Brains  
Trainer



Fit  
Brains  
Focus Trainer



Fit  
Brains  
For Kids  
Sparky's Adventures

## Assessment Apps



Fit Brains  
Brain Health  
Lifestyle  
Assessment



Fit Brains  
Cognitive  
Assessment

# Rosetta Stone + Vivity Synergies

## Multiple Products = Marketing Leverage Advantage

- Ability to bundle and cross-sell brain fitness, language learning, and literacy products

## Growing Kids Portfolio

- Fit Brains for Kids: Sparky's Adventures
- Rosetta Stone Kids apps
- Lexia Learning literacy products
- Rosetta Stone K-12 language learning business

## International Expansion

- Rosetta Stone has global brand awareness
- Fit Brains apps already localized into 10 languages

# Financial Outlook

## General Commentary

- Expect significant synergies from leveraging combined customer database to cross-sell and up-sell
- Migrate “Fit Brains” products to Rosetta Stone branding
- Focused predominantly on the Consumer segment
  - Leverage Rosetta Stone marketing and lead generation expertise
- Capture multiple sales to customers

## 2014 Impact/Contribution

- Bookings<sup>1</sup> of \$3MM to \$5MM
- Adjusted Operating EBITDA<sup>2</sup> of \$1MM to \$2MM

## 2015 & Beyond

- Double-digit percentage bookings<sup>1</sup> growth
- Adjusted Operating EBITDA<sup>2</sup> margins of 20-30%

*1. Bookings represent executed sales contracts received by the Company that are either recorded immediately as revenue or as deferred revenue.*

*2. Adjusted Operating EBITDA is GAAP net income or loss plus interest income and expense, income tax benefit and expense, depreciation, amortization and stock-based compensation expenses, plus the change in deferred revenue. Adjusted EBITDA excludes any items related to the litigation with Google Inc., restructuring costs and transaction and other costs, including integration expenses, associated with mergers and acquisitions.*