Baptista Research

June 27, 2023

FOLLOW-UP COVERAGE

Equity | Technology/ Fitness

Interactive Strength Inc. d/b/a Forme (NASDAQ:TRNR; Target Price: $10.00)

Key Report Highlights	
Industry View:	Attractive
Stock Rating:	Buy
Price Target:	$10.00
Current Price:	$3.08
52-Week-Range:	$3.05 - $8.50

Annual Income Statement	2023E	2024E	2025E
Revenues	1.91	10.90	19.00
Cost of Goods Sold	-4.15	-9.81	-16.15
Gross Income (excl. D&A)	-2.24	1.09	2.85
EBITDA	-15.00	-8.20	-6.15
EBIT (incl. extraordinary exp)	-21.73	-14.93	-12.88
Net Income	-25.43	-18.63	-16.58
Cash from Operations	-11.61	-6.13	-4.49
Free Cash Flows	-12.17	-6.65	-4.99

Growth & Margins	2023E	2024E	2025E
Sales Growth	180.9%	470.7%	74.3%
EBITDA Margin	-785.3%	-75.2%	-32.4%
EBIT Margin	-1137.7%	-137.0%	-67.8%
Net Profit Margin	-1331.4%	-170.9%	-87.3%

Valuation Ratios	Current	2023E	2024E
EV/ Sales	86.9	23.9	23.9
EV/ EBITDA	NA	NA	NA
EV/ EBIT	NA	NA	NA
Price/Earnings	NA	NA	NA

The online or virtual fitness market is poised for growth as more and more people embrace smart devices. One of the major trends in this sector is the increasing popularity of on-demand fitness products. This allows customers to participate in fitness sessions that cater to their specific needs, including workout plans, exercise difficulty levels, and trainers, all at their own convenience. With on-demand online fitness services, individuals can access a variety of sessions through a digital library, whether they prefer treadmills, ellipticals, climbers, cross-trainers, or exercise cycles. Today, let's take a closer look at Interactive Strength Inc, also known as Forme, a leading smart fitness manufacturing company that provides American customers with a range of services. These include access to instructor-led fitness classes in various modalities, levels, and lengths, personalized workout plans and classes, and live one-on-one personal training.

INVESTMENT THESIS

This is our follow-up report on Forme and we look to provide revised estimates along with a detailed account of the decent developments and various drivers that will be responsible for the company's growth in the coming years. In addition to raising $12 million through its initial public offering, Forme has secured a $15 million credit facility, providing a significant capital boost to drive its expansion in the targeted market. With this substantial financial backing, Forme is poised to establish a leading position in the rapidly evolving domains of digital personal training and health coaching. Setting itself apart from competitors like Peloton and Tonal, Forme's service offering shines with its superior flexibility and modularity, setting the stage for promising growth opportunities. Despite starting from a modest base, Forme has experienced a substantial increase in top-line revenue, accompanied by a downward trend in key financial metrics such as operating losses, operational cash burn, and gross margin loss. Notably, the company's sales and marketing expenses have been decreasing as a percentage of total revenue, signaling that the operating break-even point is within reach. Overall, Forme presents an appealing investment opportunity for those seeking to participate in the impressive growth trajectory of this dynamic fitness player. Baptista Research looks to evaluate the different factors that could influence Forme's price in the near future and attempts to carry out an independent valuation of the company using a Discounted Cash Flow (DCF) methodology to determine a suitable price for the company's stock.

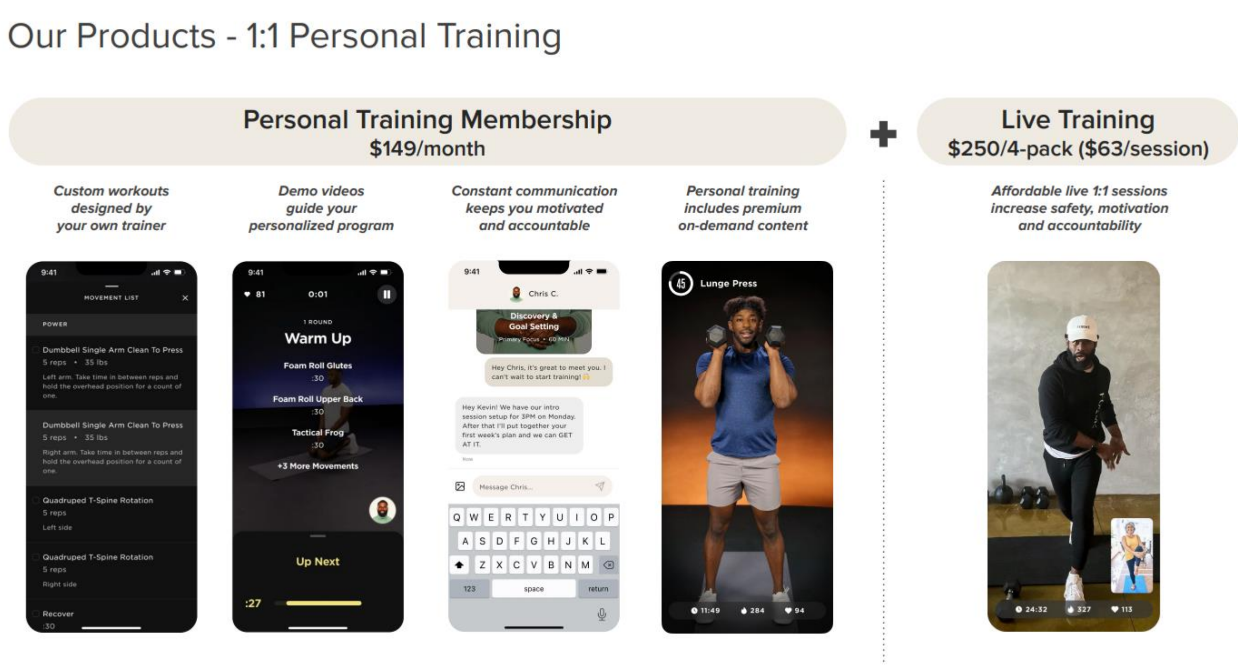
COMPANY OVERVIEW

Interactive Strength Inc owns and operates Forme, a high-end linked fitness platform combines personal coaching and training with personal training to create an immersive experience and increase client and trainer performance. Their fitness solution services are goal-driven as an industry leader in the quickly growing disciplines of virtual personal training and health coaching. Through VOD (video-on-demand) material, hand-selected personalised fitness programming, Live 1:1 personal training, and other health coaching services, the Forme platform offers an immersive and dynamic at-home fitness experience. These services can be streamed through the Forme Studio app on various devices and are available through the company's connected fitness hardware items. The company's services are also available on Android devices. Its Personal Training membership is priced at $149 per month whereas its Live Training is priced at $250 for a pack of 4 sessions. Forme was established in 2017 and is headquartered in Austin, TX.

KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

1. ROBUST SET OF OFFERINGS
2. ATTRACTIVE PRICE POINTS & REVENUE MODEL
3. EXPANSION IN EUROPE & GROWTH STRATEGY
4. FAVORABLE MACRO & COMPETITIVE LANDSCAPE
5. EXPERIENCED MANAGEMENT TEAM

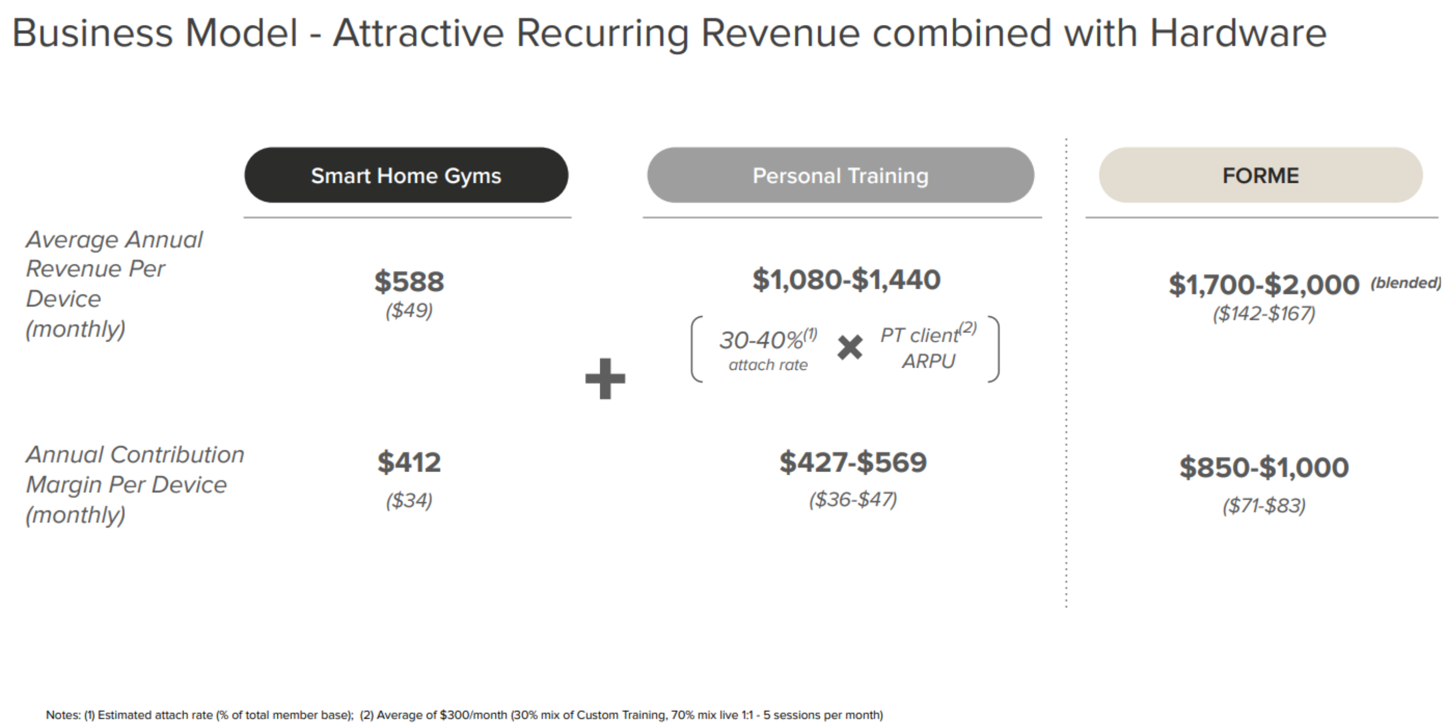
Robust Set Of Offerings



Source: Company Presentation

- Forme offers two connected fitness hardware products: the Forme Studio and the Forme Studio Lift, both designed to provide a seamless and immersive workout experience compared to similar products in the market.
- The Forme Studio is a fitness mirror equipped with two front-facing 12-megapixel wide-angle cameras for smooth live interaction with trainers and features a 43-inch 4K ultra HD touchscreen display.
- On the other hand, the Forme Studio Lift includes two additional cable-based resistance arms, each capable of handling up to 100 pounds of resistance.
- The company generates the majority of its revenue from the sales of these connected fitness hardware products, complemented by offerings such as personal training, VOD programs, qualified health coaching, and guidance on nutrition, recovery, sleep, and overall lifestyle.
- Currently, health coaching services primarily consist of personal training sessions. Customers who purchase the Forme Studio and Forme Studio Lift gain access to the company's VOD content catalog by creating a Forme account and subscribing to the monthly membership program.
- Once on the platform, each member is paired with a Fitness Concierge who understands their unique needs and goals, creating customized weekly fitness plans that include On-Demand classes from the VOD library.
- The VOD content library covers a wide range of modalities, including strength, recovery, barre, mind, Pilates, yoga, and other specialty categories.
- To enhance the personalized experience, Forme introduced a Custom Training service where members can connect with trainers to receive supervised exercise programs tailored to their health objectives.
- This service grants full access to the VOD video library for $149 per month, and members can also upgrade their subscriptions to participate in Live 1:1 personal training programs. When opting for Live 1:1 training, members undergo an onboarding process and are matched with professional trainers based on their preferences and selection criteria.
- After an initial fitness evaluation, the trainer creates a customized program aligned with the member's unique requirements and goals.
- To ensure a consistent and high-quality user experience, Forme has developed its in-house Live 1:1 software platform, which includes valuable features like on-screen biometrics, adjustable trainer field of view, and on-screen UI elements that provide context and motivation during sessions.
- Trainers can adjust their trainees' resistance levels while using the Studio Lift, offering a more individualized approach and attentive service.
- Overall, it is safe to say that Forme has a wonderful offering that is a unique blend of personal training and technology that could truly revolutionize the market.

Attractive Price Points & Revenue Model



Source: Company Presentation

- Forme derives its primary revenue from the sales of its connected fitness hardware and the recurring membership fees. Initially launching its first connected fitness hardware device in the second half of 2021, the company has successfully generated sales revenue.

- To cater to a wide range of fitness objectives, financial constraints, and individual needs, Forme has strategically developed modular product and service offerings, expanding its target market.

- One key aspect that sets Forme apart is its emphasis on providing a high-quality personal training experience through the internal development, training, and management of their trainers, as well as the utilization of advanced technology and software for user interaction.

- The management team is focused on improving unit economics by leveraging their connected fitness hardware products as a foundation and layering additional services on top, distinguishing themselves from competitors like Peloton and Tonal.

- By offering comprehensive service packages, Forme aims to reduce dependence on product sales and brand awareness alone, instead generating significant annual recurring revenue and profitability.

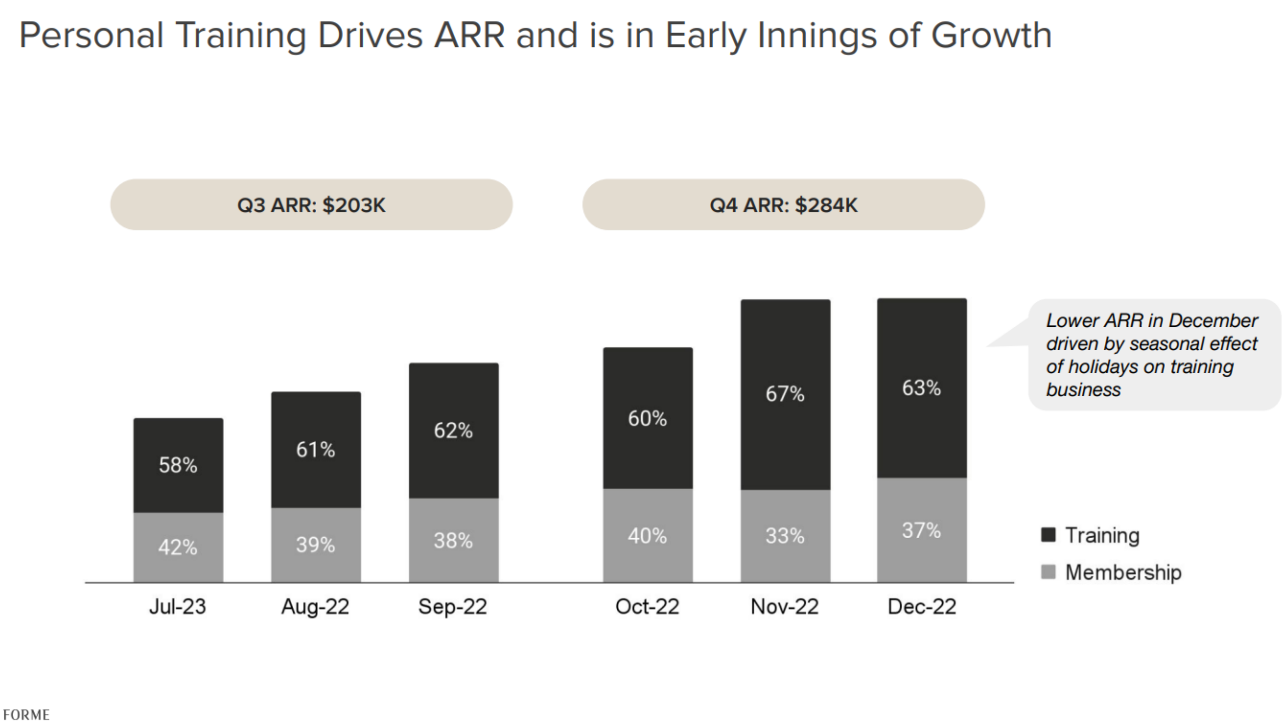
- Outsourcing non-core activities allows the company to concentrate its efforts on core functions such as design, development, quality and reliability management, marketing, and sales.

- This strategic decision not only enhances their agility in capitalizing on emerging market opportunities but also streamlines business processes, minimizes risks, and reduces capital commitments.

- It is important to note that Forme's business model enables efficient customer acquisition methods, presenting an attractive value proposition.

- While direct-to-consumer channels offer rapid initial growth, Forme has also invested in establishing channels that can potentially yield more cost-effective client acquisition rates in the long run.

Growth Strategy & European Expansion



Source Company Presentation

- As we can see in the above snapshot, Forme has achieved solid recurring revenue growth, and the management is focused on enhancing add-on memberships and services to deliver an engaging member experience, emphasizing the value of coaching and personal training offerings.

- They believe that offering services at various price points will drive total service revenues and are committed to reducing the cost of coaching through their goods, technology, and proprietary trainer education platform while maintaining a high-quality coaching experience.

- This strategy aligns with their goals of expanding the addressable market for coaching services by making them more accessible and exploring opportunities in telemedicine, physical treatment, and sports industries.

- Additionally, they aim to grow their corporate wellness project, leveraging their comprehensive product portfolio to cater to modern corporate wellness programs and extend their reach internationally.
- Forme has embarked on its European expansion through a strategic alliance with SIGNA Sports United (SSU), leveraging SSU's platform and customer base to tap into new markets.
- The partnership aligns with Forme's mission and provides opportunities to enhance consumers' sporting experiences with their smart home gyms and virtual training services.
- Furthermore, Forme's brand partnership with Aethos allows them to showcase their digital fitness services across Aethos establishments in Europe, starting with the integration of Forme Studio at Aethos Monterosa in the Italian Alps.
- The collaboration extends to Aethos' Milan club, offering preferential access to Forme's devices and services.
- This alliance underscores Forme's commitment to physical activity and Aethos' dedication to innovative wellness solutions, enabling Forme to reach a broader customer base in premium global locations and fuel their future growth trajectory.

Favorable Macro & Competitive Landscape

- As an aftermath of the pandemic, consumers have rapidly switched from brick-and-mortar fitness options to internet offerings in 2020 and 2021. In 2020, 80% of customers watched livestream fitness material, up from 7% in 2019.
- Even though gyms and studios have reopened, 46% of those customers indicated they still plan to incorporate virtual exercises into their routine.
- The gym and health club sector rebounded, with U.S. domestic revenue hitting $28 billion. According to IHRSA, revenue has yet to reach pre-COVID levels, indicating that consumers' tastes are shifting to virtual products. In the fitness business, strength training represents the greatest component.
- The total addressable market for FORME's products and services is substantial, with global spending in the wellness industry estimated at over $4 trillion, and approximately $740 billion spent on fitness categories.
- FORME estimates that nearly 10 million households, primarily in the higher-income bracket, represent its total addressable market, accounting for an estimated $18 billion in annual fitness spending.
- Notable competitors in the digital fitness strength training sector include Tonal, known for its interactive smart strength training home gym, which raised $250 million in 2021 but later downsized its workforce due to changing consumer demand.
- Mirror, acquired by lululemon for $500 million, offers interactive workout platforms and various home gym packages, while Tempo provides a range of smart home gym products at different price points, including Tempo Core, Tempo Move, and Tempo Studio.

- Each competitor offers unique features and pricing options, catering to the evolving needs of fitness enthusiasts.
- However, Forme's strength training area is sizable and well-positioned for growth within the larger fitness industry.
- According to the Bureau of Labor Statistics, strength training surpasses other cardiovascular exercises and biking in terms of daily participation, with three to four times greater involvement.
- This highlights the strong demand for strength training and presents an opportunity for Forme to target the premium end of the market with its fitness products and health coaching services.
- IHRSA data supports this approach, as premium gyms, representing 32% of all gym memberships, generate 72% of the industry's revenue, indicating a concentration of spending in the premium segment.
- While fitness spending has traditionally focused more on tangible items than services, there is a growing trend of consumers investing in wellness apps and services. In 2022, approximately 45% of consumers spent on wellness or app-based wellness services, while around 25% spent on fitness products.
- Forme's digital health coaching offering addresses the historical barriers of cost and convenience associated with accessing health coaching services, reducing the cost per session by approximately 30% compared to traditional gym-based coaching, primarily due to lower distribution costs.
- Furthermore, digitization provides increased convenience for customers, allowing them to train at home and offering more flexibility in scheduling sessions with trainers across different time zones.
- Digital platforms also attract trainers, as they can enhance efficiency and effectiveness through value-added tech tools and reduce time spent traveling to clients.
- The shift towards virtual services is evident, with the Personal Trainer Development Center reporting that 83% of trainers anticipated offering virtual services in August 2020, a significant increase from the pre-COVID-19 figure of 39%.
- It is important to highlight that based on data compiled by Piper Sandler, the management estimates that health club revenue recovered to $28 billion as gyms reopened, despite the difficulties brought on by the pandemic.
- This demonstrates that underlying interest in health and wellness activities is still strong.

Experienced Management Team

- Since Forme's foundation, Trent A. Ward has been serving as its CEO and a member of its board of directors with expertise in the financial and business sectors.

- He is one of the co-founders of the company. Mr. Ward worked as an associate, analyst, and portfolio manager at the financial services firm Citadel LLC.

- He also founded Interactive Strength Inc. Mr. Ward earned his Bachelor of Science degree in Economics and a Bachelor of Applied Science degree in Engineering from the University of Pennsylvania.

- Michael J. Madigan also serves the company with his tremendous experience in finance. Mr. Madigan worked for XPO Last Mile, Inc., a third-party logistics company, in many positions, including Senior Director of Financial Planning and Analysis, Senior Vice President of Finance, and Vice President of Finance.

- Besides, he served as Vice President of Finance at 3PD and held a number of positions at PricewaterhouseCoopers. Mr. Madigan graduated from Le Moyne College with a Bachelor of Science in Accounting.

- Another key executive that is worth highlighting, is the company's Chief Technology Officer, Deepak Mulchandani, who has worked at Peloton in the past and was the Head of Engineering in the company's rival. Mr. Deepak has over 3 decades of experience under his belt and is a valuable addition to the team.

- Stuart Bryan, the company's Director of Finance, is another experienced professional and has held the positions of Senior Director of Accounting and Senior Director of Accounting & Finance for Forme.

- He was the Senior Finance and Accounting Director at Vertiv Holdings Co, a multinational infrastructure firm. Mr. Bryan formerly held several positions in the automaker General Motors Company, including Assistant Finance Director, Controller of a wholly owned subsidiary, and Technical Accountant.

- He also worked as an auditor for Deloitte & Touche and as a manager for Ernst & Young's US Capital Markets group in London, England.

- Furthermore, he earned his bachelor's degrees in accounting and auditing with honors from the University of KwaZulu-Natal and in accounting science from the University of South Africa.

- In a nutshell, the company is well-organized with these expert team members to earn significant momentum in the long term.

HISTORICAL FINANCIAL STATEMENTS & PROJECTIONS

Quarterly Income Statement & Cash Flow Summary - All Data In USD Millions

Particulars	12/31/21	3/31/22	12/31/22	3/31/23
Revenues	0.2	0.2	0.2	0.2
% growth		*18.8%*	*0.0%*	*-15.8%*
Cost of Goods Sold	-1.9	-2.4	-2.9	-1.8
% of revenue	*-1156.3%*	*-1236.8%*	*-1521.1%*	*-1131.3%*
Gross Income (excl. D&A)	-1.7	-2.2	-2.7	-1.7
% of revenue	*-1056.3%*	*-1136.8%*	*-1421.1%*	*-1031.3%*
EBITDA	-11.3	-11.2	-12.8	-20.1
% of revenue	*-7075.0%*	*-5873.7%*	*-6710.5%*	*-12556.3%*
Depreciation & Amortization	1.4	1.1	3.2	1.1
Extraordinary Expenses	0.0	0.0	0.0	0.0
EBIT	-12.7	-12.3	-15.9	-21.2
% of revenue	*-7931.3%*	*-6473.7%*	*-8378.9%*	*-13256.3%*
Pretax Income	-13.0	-12.7	-18.8	-16.0
% of revenue	*-8150.0%*	*-6678.9%*	*-9900.0%*	*-9975.0%*
Income Tax	0.0	0.0	0.0	0.0
% rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	-13.0	-12.7	-18.8	-16.0
% of revenue	*-8150.0%*	*-6678.9%*	*-9900.0%*	*-9975.0%*

Quarterly Cash Flow Summary (USD Million)

Particulars	12/31/21	3/31/22	12/31/22	3/31/23
Cash from Operations	-12.6	-10.8	-6.1	-4.7
% of revenue	*-7862.5%*	*-5663.2%*	*-3184.2%*	*-2962.5%*
Cash from Investing	2.9	2.7	-0.6	0.4
Free Cash Flows	-15.4	-13.4	-5.5	-5.2
% of revenue	*-9650.0%*	*-7073.7%*	*-2868.4%*	*-3225.0%*

- Let us start off with analyzing the most recent and historical quarterly data reported by the company.
- Forme has reported a top-line of $0.16 million in its recent quarterly result which is a -15.79% depreciation over the previous quarter. One major highlight is the company's recurring revenue per customer per year which is as high as $1,650 whereas most of its rivals such as Peloton & Tonal is below $1000.
- One of the biggest reasons why revenues of the company should start growing rapidly in the coming quarters is the fact that the personal training model that they have is hardware agnostic so customers can be Peloton users and still make use of Forme personal training. This increases their addressable market significantly.
- The company reported a negative gross margin of -1031.25% for the quarter ended 3/31/23. However, it is unlikely to be the case in the long term.
- Its EBITDA for the quarter was $-20.09 million. Forme's operating income (EBIT) was reported at $-21.21 million and a margin of -13256.25%.
- Forme reported a net income of $-15.96 million which resulted in a diluted earnings per share (EPS) of $-2.09.
- Forme burnt $-4.74 million in terms of operating cash flows for the quarter ended 3/31/23.
- The company was able to convert about -2962.50% of its revenues into operating cash flows in the recent quarter.
- This quarter's EBITDA-to-operating cash flow conversion ratio is 23.59%
- Overall, Forme delivered a negative free cash flow of $5.16 million for the past quarter. .

Annual Income Statement - All Data In USD Millions

Particulars	2019	2020	2021	2022
Revenues		0.0	0.3	0.7
% growth				*112.5%*
Cost of Goods Sold		-0.4	-5.2	-9.6
% of revenue			*-1615.6%*	*-1404.4%*
Gross Income (excl. D&A)		-0.4	-4.9	-8.9

% of revenue		*-1515.6%*	*-1304.4%*
EBITDA	-16.4	-35.0	-47.6
% of revenue		*-10925.0%*	*-7001.5%*
Depreciation & Amortization	0.1	2.2	6.7
% of Fixed Assets	*3.8%*	*30.8%*	*85.4%*
Extraordinary Expenses	0.0	0.0	0.0
EBIT	-16.5	-37.2	-54.4
% of revenue		*-11609.4%*	*-7992.6%*
Pretax Income	-12.7	-32.8	-58.2
% of revenue		*-10262.5%*	*-8563.2%*
Income Tax	-1.5	0.0	0.0
% rate	*12.0%*	*0.0%*	*0.0%*
Net Income	-11.2	-32.8	-58.2
% of revenue		*-10262.5%*	*-8563.2%*

- When we analyze the company's annualized historical income statement, we see that the top-line was $0.68 million for the previous financial year ending in 2022.
- Forme's cost of goods sold has increased from -1615.63% to -1404.41% as a percentage of the top-line resulting in a drop in the gross margins.
- The company's overall annual EBITDA margin of -7001.47% is higher than the reported quarterly EBITDA margin for the most recent quarter.
- Non-cash expenses in the form of depreciation and amortization have gone up as compared to the result in 2021.
- In terms of the bottom-line, Forme reported an operating income (EBIT) of $-54.35 million and a net income of $-58.23 million resulting in an EPS of $7.

Annual Balance Sheet - All Data In USD Millions

Particulars	2020	2021	2022
Assets			
Net Intangible Fixed Assets	3	5	6
Net Tangible Fixed Assets	1	2	1
Total Fixed Assets	**4**	**7**	**8**
LT Investments	0	0	0
Inventories	0	2	5
% of revenue		*643.8%*	*672.1%*
Accounts Receivable	1	0	1
% of revenue		*-3.1%*	*110.3%*

Cash and ST Investments	0	2	0
% of revenue		*531.3%*	*33.8%*
Other Current Assets	1	5	4
Total Current Assets	**2**	**9**	**10**
Other Assets	0	6	7
Total Assets	**6**	**22**	**24**
Liabilities & Shareholder's Equity			
Equity & Minorities	-13	10	-3
LT Debt	0	1	0
Other LT Liabilities	5	0	3
Total LT Liabilities	**5**	**1**	**3**
ST Debt	9	7	11
Accounts Payable	4	2	8
% of COGS		*659.4%*	*1138.2%*
Other ST Liabilities	1	2	5
Total Current Liabilities	**15**	**11**	**24**

Total Liabilities	**19**	**12**	**27**
Total Liabilities & Shareholder's Equity	**6**	**22**	**24**

- Moving on to the company's historical annualized balance sheet, when we analyze the fixed assets versus the revenues, we see that the percentage has evolved from 0.00% to 0.00%
- Its receivables of $0.75 million are about 110.29% of the top-line.
- Forme has close to $0.23 million in terms of liquidity i.e. cash and short term investments.
- On the other hand, its payables for 2022 account for around 1138.24% of the cost of goods sold.
- The company's long term debt is around -1.1x times its equity.

Financial Forecasts - All Data In USD Millions .

Particulars	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Revenues	0.3	0.7	1.9	10.9	19.0
% growth		*112.5%*	*180.9%*	*470.7%*	*74.3%*
Cost of Goods Sold	-5.2	-9.6	-4.2	-9.8	-16.2
% of revenue	*-1615.6%*	*-1404.4%*	*-217.4%*	*-90.0%*	*-85.0%*
Gross Income (excl. D&A)	-4.9	-8.9	-2.2	1.1	2.9

% of revenue	*-1515.6%*	*-1304.4%*	*-117.4%*	*10.0%*	*15.0%*
EBITDA (Adj)	-35.0	-47.6	-15.0	-8.2	-6.2
% of revenue	*-10925.0%*	*-7001.5%*	*-785.3%*	*-75.2%*	*-32.4%*
Depreciation & Amortization	2.2	6.7	6.7	6.7	6.7
EBIT (Adj)	-37.2	-54.4	-21.7	-14.9	-12.9
% of revenue	*-11609.4%*	*-7992.6%*	*-1137.7%*	*-137.0%*	*-67.8%*
EBT (Adj)	-32.8	-58.2	-25.4	-18.6	-16.6
% of revenue	*-10262.5%*	*-8563.2%*	*-1331.4%*	*-170.9%*	*-87.3%*
Net Income (Adj)	-32.8	-58.2	-25.4	-18.6	-16.6
% of revenue	*-10262.5%*	*-8563.2%*	*-1331.4%*	*-170.9%*	*-87.3%*
Earnings Per Share (Adj)	-2.29	-4.07	-1.78	-1.30	-1.16

Forecasted Cash Flow Statement (USD Million)

Particulars	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Net Income	-32.8	-58.2	-25.4	-18.6	-16.6
+ Depreciation & Amortization	2.2	6.7	6.7	6.7	6.7
+/- Working Capital, Deferred Taxes & Other Adjustments	-7.6	16.0	7.1	5.8	5.4
Cash Flow from Operations	**-38.3**	**-35.6**	**-11.6**	**-6.1**	**-4.5**
% of EBITDA	*109.4%*	*74.7%*	*77.4%*	*74.7%*	*73.0%*

Capital Expenditure	-2.6	-0.6	-0.6	-0.5	-0.5
% of revenues	*818.8%*	*85.3%*	*28.8%*	*4.8%*	*2.6%*
Other Investment Cash Flow items	-10	-7	0	0	0
Cash Flow after Investments	**-12.4**	**-7.6**	**-0.6**	**-0.5**	**-0.5**
Free Cash Flow	**-40.9**	**-36.1**	**-12.2**	**-6.7**	**-5.0**

Key Ratios

Growth & Margins	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales Growth	0.0%	112.5%	180.9%	470.7%	74.3%
EBITDA Margin	-10925.0%	-7001.5%	-785.3%	-75.2%	-32.4%
EBIT Margin	-11609.4%	-7992.6%	-1137.7%	-137.0%	-67.8%
Net Profit Margin	-10262.5%	-8563.2%	-1331.4%	-170.9%	-87.3%

Leverage Ratios	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Net Debt	6	11	23	30	35
Net Debt/ Equity	0.6	-3.9			
Net Debt/ EBITDA	-0.2	-0.2	-1.5	-3.6	-5.6

- Now let us move on to Baptista Research's forecasts for Forme's income statement and cash flows.
- We forecast a top-line growth of 180.9% for 2023, around 470.7% for 2024, and about 470.7% for 2025.
- This growth is expected to translate into an EBITDA of $-15 million in 2023 with a margin of -785.34%.
- Forme's EBIT margin is expected to be -1137.70% in 2023, about -136.97% in 2024, and -136.97% in 2025.
- Our estimate for the company's Net Income is $-25.43 million implying a net margin of -1331.41% and resulting in an earnings per share of $-1.78. We expect the growth to follow a similar trend in 2024 and 2025.
- In terms of the cash flows, we expect Forme to generate around $-11.614 million in operating cash flows in 2023.
- This implies an EBITDA-to-Operating-Cash-Flow conversion ratio of 77.43%
- Forme is expected to invest a lower amount in capex and other investing activities in 2023.
- Overall, the company is expected to generate free cash flows to the tune of $-12.165 million in 2023.
- Forme's Net Debt is expected to increase in 2023 and is expected to follow a similar trend over the coming years.
- The Net Debt-to-EBITDA ratio is a measure of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. It shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.
- Forme's Net Debt-to-EBITDA ratio is expected to be -1.53 in 2023 which indicates that the company is not leveraged.
- Net-Debt-to-Equity ratio, also known as the gearing ratio shows how encumbered a company is with its debt.
- The company's Net Debt-to-Equity ratio for 2022 is -3.94 and it indicates that the company has no gearing.

DISCOUNTED CASH FLOW (DCF) VALUATION

Key DCF Assumptions	
WACC	19.4%
CoD	10.3%

CoE	21.5%
Market Rate	6.0%
Risk Free Rate	3.5%
Beta	3
Perpetual Growth Rate (g)	21.7%
Terminal Value	222
Tax Rate	0.0%

- For the purpose of carrying out the discounted cash flow valuation of Forme, we have used the standard capital asset pricing model (CAPM).
- We have used a 6.0% equity market risk premium based on the S&P 500 returns for the past 5 years.
- The risk-free rate has been assumed as the 10-year Treasury Constant Maturity Rate of the U.S. at 3.45%.
- The company's stock is more volatile than the market as a whole and has a beta of 3.0 which we shall use without leveraging the same as we are going for the enterprise value approach."
- This is used in order to arrive at the cost of equity (CoE) of 21.5% which appears reasonable for a company like Forme.
- Based on the company's long term debt and interest payments, the cost of debt is 10.3%. After incorporating the CoE and the CoD and average tax rate of 0.0%, we arrive at a Weighted Average Cost of Capital (WACC) of 19.4%.
- The terminal value is a key component of any DCF valuation as it accounts for the largest chunk of the total projected value of the company. There are a number of methodologies used to determine the same such as the perpetual growth rate method or the multiples method.
- In this case, we have gone ahead and determined the terminal value by applying the current EV/Sales ratio of 149.3 to our forecasted revenues of 2025.

EV and Market Cap	Current	2023E	2024E	2025E
Price ($)	3.0	10.0	16.2	29.3

Outstanding Number of shares (million)	14.31	14.31	14.31	14.31
Total Market Cap (billion)	0.04	0.14	0.23	0.42
Net Debt	11	23	30	35
Enterprise Value (billion)	0.05	0.17	0.26	0.45

After applying the discount rate (WACC) of 19.4%, we arrive at a price target of $10.0 for 2023.

Our target price at the end of 2024 is $16.2 and for 2025 is $29.3 which implies a total appreciation of nearly 875.4% in the coming 3 years in the stock price.

The EV/ EBIT will be in the range of -30.36 to -12.00 over the coming 3 years.

Valuation Ratios	**Current**	**2023E**	**2024E**	**2025E**
EV/ Sales	78.9	86.9	23.9	23.9
EV/ EBITDA	NA	NA	NA	NA
Price/Earnings	NA	NA	NA	NA

KEY RISKS

- It is important to highlight the key risks associated with an investment in Forme Holdings as well as the inherent risks associated with the financial projections and price forecasts presented in this report.

- Forme is catering to a vast addressable market in terms of virtual fitness but this space is getting increasingly crowded. There are a number of players such as Peloton and Tonal which have more funds at their disposal and a solid penetration already and it is possible that they may not allow Forme to expand. Given their buying power and technology, it could become difficult for smaller players like Forme to survive. Moreover, Forme's pricing is more premium compared to them which could prove to be a disadvantage if the company is not able to market its offerings effectively.

- In order to accommodate growth and compete effectively, Forme' management will need working capital to improve its technology, develop additional procedures and controls and increase, train, motivate and manage its work force. Also, Forme will be required to incur heavy marketing expenditure in order to onboard more and more subscribers and minimize churn. This would require heavy funding which would in turn result in a huge dilution of shareholders. The company is burning cash today and its break even is not expected to take place in 2023.

- It is important to highlight that Forme is serving the global market since less than a decade which means it has a very limited operating history. As a result, many potential investors find it difficult to evaluate its business prospects and management.

- With respect to our price projection, we would like to clarify that the valuation of Forme Holdings in this report is specific to the date of the analysis i.e. 27-06-2023.

- Another one of the biggest risks to Forme Holdings' model is the fact that the company's top-line growth is assumed to be consistently growing by a certain rate in the model. There is a possibility that this assumption might not hold true if the COVID-19 situation persists for too long. With respect to our price projection, we would like to clarify that the valuation of Forme Holdings in this report is specific to the date of the analysis i.e. 27th June 2023.

- We must emphasize that the projected valuation and the share price of Forme Holdings are dependent on the realization of the revenue growth, free cash flows and the other assumptions taken into account. Our analysis cannot be directed to providing any assurance about the achievability of these financial forecasts. There is a possibility that the actual results of the company are different from the projected results as a result of unexpected events and circumstances such as the realization of the threats mentioned in the paragraph above. Lastly, we would like to clarify that we had no interaction with the management of the company and they did not comment on the achievability or the reasonableness of the assumptions underlying the financial forecasts. Please check out our detailed disclosures at the end for further details.

ANALYST RATINGS

- Buy: Expected to outperform market over next 6 to 12 months. Minimal risk to fundamentals and valuation. Good long-term investment.
- Outperform: Expected to outperform the market over next 6 to 12 months but there is a moderate risk to fundamentals and valuation.
- Sell: Expected to significantly underperform the market over next 6 to 12 months. There is a strong likelihood of the security delivering negative returns and a very high risk to fundamentals and valuation.
- Underperform: Expected to underperform the market over next 6 to 12. There is a moderate to high risk to fundamentals and valuation.
- Hold: Expected to perform in line with the market over next 6 to 12 months. However, there is a moderate to high risk to fundamentals and valuation.

ANALYST INDUSTRY VIEWS

- Attractive: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
- In-Line: The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
- Cautious: The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
- Benchmarks for each region are as follows: North America - S&P 500; Latin America – MSCI EM Latin America Index; Europe – MSCI Europe; Japan - TOPIX; Asia - relevant country index or sub-regional index. Please contact us to know the relevant index in case it is not specified in the report.

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