

INITIATING COVERAGE

Equity | Technology/ Fitness

**Interactive Strength Inc.
(NASDAQ:TRNR; IPO Coverage)**

Key Report Highlights

Industry View:	Attractive
IPO Rating:	Buy

The online or virtual fitness market is anticipated to rise as smart device adoption increases. In the online fitness sector, on-demand products are a major trend growing in popularity. Customers can attend fitness sessions with their choice of workout plans, exercise difficulty levels, and trainers at their convenience due to on-demand online fitness services. Through the digital library, on-demand sessions can be accessed on treadmills, ellipticals, climbers, cross-trainers, and exercise cycles. Today, we will dig deeper into Interactive Strength Inc, better known as Forme, a smart fitness manufacturing company that offers access to on-demand instructor-led fitness classes covering various modalities, levels, and lengths, personalized workout plans and classes, and live one-on-one personal training to American customers.

Annual Income Statement	2022E	2023E	2024E
Revenues	649	1889	4630
Cost of Goods Sold	-8881	-7993	-7194
Gross Income (excl. D&A)	-8232	-6104	-2564
EBITDA	-40237	-38109	-34569
EBIT (incl. extraordinary exp)	-40237	-38109	-34569
Net Income	-40237	-38109	-34569
Cash from Operations	-32994	-31250	-28347
Free Cash Flows	-45785	-41738	-36947

INVESTMENT THESIS

This is our first report on Forme and we look to provide a detailed account of the various drivers that will be responsible for the company's growth in the coming years. Forme has the potential to be an industry leader in the rapidly growing fields of virtual personal training and health coaching, as its offerings appear to be far more flexible and modular than rivals such as Peloton and Tonal. Its top-line revenue has increased from a low starting point, while operating losses, operating cash flows, and EBITDA loss have all decreased. This is unlike many large incumbents like Peloton who have struggled with a high cash burn for many years. Forme's sales and marketing expenses as a percentage of total revenue have been decreasing, indicating that it will be able to reach its operating break-even point in the very near future, far ahead of rivals like Tonal and Peloton. The offering appears to be an excellent investment opportunity for investors looking to participate in this fast-growing fitness player's excellent growth story. Baptista Research looks to evaluate the different factors that could influence Forme's price in the near future.

Growth & Margins	2022E	2023E	2024E
Sales Growth	101.0%	190.9%	145.1%
EBITDA Margin	-6196.7%	-2017.5%	-746.7%
EBIT Margin	-6196.7%	-2017.5%	-746.7%
Net Profit Margin	-6196.7%	-2017.5%	-746.7%

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 was established in 2017 and has offices in Colombia's capital city of Bogotá.

KEY FACTORS DRIVING THE COMPANY'S PERFORMANCE

1.	CORE OFFERINGS
2.	REVENUE MODEL
3.	GROWTH STRATEGY
4.	FAVORABLE MARKET TRENDS
5.	ADDRESSABLE MARKET
6.	STRONG MANAGEMENT TEAM

Core Offerings

FORME
Consumer Offering

FORME offers multiple price points and platform options



\$49/mo
ON-DEMAND CONTENT

- Hundreds of classes, content updates regularly
- Eight modalities including strength, recovery, barre, mind, yoga, pilates
- Data tracking (e.g., heart rate, calories burned)



\$149/mo
CUSTOM TRAINING PLANS

- Custom, guided workouts planned for you by a real coach
- Coaching that is with you all the time, at the gym, at home or on-the-go
- Includes On-Demand membership



\$299 - \$799/mo
LIVE 1:1 TRAINING

- Train live with your coach anytime
- Nutrition, sleep, and recovery coaching available
- Expert form correction and motivation
- Includes Custom Training Plans membership
- Includes On-Demand membership

Hardware Options:

1) Own tablet/mobile - \$0

2) Studio for \$52/mo (48 months)

3) Studio with Lift for \$104/mo (48 months)

Source: Company Presentation

- Forme offers two connected fitness hardware products, the Forme Studio and the Forme Studio Lift. Compared to similar linked fitness products on the market, both products are intended to offer a more seamless and immersive experience.
- The Forme Studio, a fitness mirror, has two front-facing 12-megapixel wide-angle cameras to provide smooth live interaction with a trainer and a 43-inch 4K ultra HD touchscreen display.
- The Forme Studio Lift, on the other hand, has two additional cable-based resistance arms, with each having a 100-pound resistance capacity.
- The majority of the company's revenue comes from its linked fitness hardware items sales. It offers personal training, VOD programs, and qualified health coaching, along with connected fitness hardware products.
- They also offer advice and coaching on nutrition, recuperation, sleep, and other aspects of health and lifestyle. Currently, the majority of their health coaching services consist of personal training.
- Users purchasing the Forme Studio and Forme Studio Lift can access its VOD content catalog by creating a Forme account and subscribing to its monthly membership program.
- Once on the platform, each member is paired with a Fitness Concierge who can understand their unique requirements and goals before creating weekly fitness plans, including On-Demand classes from their VOD content library.
- Their VOD content library covers a wide range of modalities, including strength, recovery, barre, mind, Pilates, yoga, and other specialty categories.
- Forme further introduced a Custom Training service for members to help them connect with trainers, creating personalized, supervised exercise programs especially suited to the members' health objectives.
- The full VOD video library is available with this service only for \$149 per month. They also offer their Live 1:1 personal training programs as an upgrade to subscriptions.
- When members choose to participate in Live 1:1, they go through an onboarding process and are matched with a professional trainer based on their preferences and selection criteria.
- After a fitness evaluation in the first session, the trainer creates a customized program for the member based on their unique requirements and objectives.
- Forme aims to provide a consistent and high-quality user experience for the member and the trainer through its in-house developed Live 1:1 software platform. This includes value-added features like on-screen biometrics, an adjustable field of view for the trainer, and other on-screen UI elements to provide context and motivation during a session.
- Trainers can change their trainees' resistance while working out on the Studio Lift, giving the client more individualized attention and service.

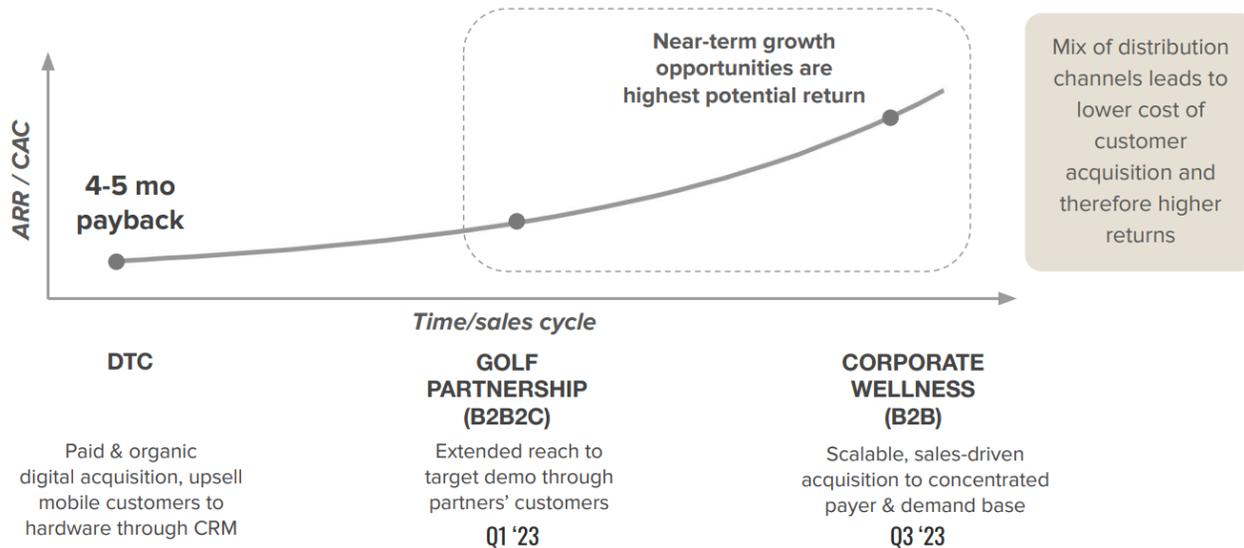
Revenue Model

- Forme's linked fitness hardware sales and the periodic membership fees are the primary sources of its revenue. The company started making revenue from the sales of its products in the second half of 2021, with the introduction of its first connected fitness hardware device.
- They have developed their product and service offerings to be modular so that they may be tailored for a wide range of fitness objectives, financial constraints, and needs, expanding their target market.
- Another important differentiation enabling them to provide a high-quality and reliable personal training experience is their internal development, training, and management of their trainers, as well as the technology and software they use to interact with their users.
- The management is focused on improving the unit economics compared to competitors like Peloton and Tonal by layering services on top of their connected fitness hardware products.
- They also believe their service offerings lessen their reliance on generating volume through product sales and brand awareness and help them generate significant annual recurring revenue and profitability.
- Their outsourcing of non-core activities enables them to concentrate on their efforts on their design, development, quality and reliability management, marketing, and sales.
- It further gives them the adaptability to take advantage of emerging market opportunities, streamlines their business processes, lowers risk, and substantially lowers their capital commitments.
- It is worth highlighting that their business model strongly positions them to leverage various efficient customer acquisition methods, delivering an appealing value proposition.
- While direct-to-consumer channels can offer the shortest route to initial growth, they have made early investments in establishing channels that may eventually produce more cost-effective client acquisition rates.

Growth Strategy

Differentiated Consumer Distribution

Differentiated distribution drives cost effective growth



Source: Internal company estimates; the internal analysis information herein speaks solely as of December 1, 2022 and is based on currently available information, various assumptions, analyses and internal estimates and are subject to change, including in the near-, short- and long-term, based on future events and other factors, some of which are outside the control of the Company.

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Source Company Presentation

- Forme intends to improve the uptake of its add-on memberships and services by giving its members an engaging member experience highlighting the diversity of services and the value-added advantages of its coaching and personal training offerings.
- The management believes that offering services at various price points will be an effective growth lever by raising total service revenues.
- While keeping an unwavering focus on the calibre of the coaching experience, they are looking for methods to use their goods, technology, and proprietary trainer education platform to gradually reduce the cost of coaching.
- This strategy is essential to achieving their medium- to long-term goals to increase the addressable market for coaching services by lowering the per-session cost and making professional coaching services more accessible through their hardware and mobile experiences.
- They are also constantly looking for opportunities in different industries, such as telemedicine, physical treatment, and sports, to use their coaching expertise to increase their influence and reach.
- Besides, the management intends to keep growing their newly started corporate wellness project. It is worth highlighting that Forme's comprehensive product portfolio is ideal for modern corporate wellness programs as it enables corporations to provide all of their employees with a coaching platform regardless of their work locations.
- They further continue to pursue disciplined international expansion where Forme's value proposition will resonate with the American consumer.

Favorable Market Trends

- 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 company's strength training area is sizable and well-positioned for growth within the larger fitness industry. According to the Bureau of Labor Statistics, involvement in strength training is three to four times more than other cardiovascular equipment and two to three and a half times greater than biking on an average day.
- Moreover, some studies on consumer spending and behavior reveal that the premium end of the market is appealing for the company to target with its goods and health coaching services.
- IHRSA also stated that premium gyms represent 32% of all gym memberships and produce 72% of all gym revenue, indicating that most industry spending is on the premium end.
- Spending on fitness has always been more heavily skewed toward items than services. However, apps and services related to well-being are becoming more popular. In 2022, around 45% of consumers spent on wellness or app-based wellness services, while around 25% on fitness products.
- Health coaching services have historically been inaccessible to many due to cost and lack of convenience. But Forme's digital health coaching offering can reduce the cost per session by approximately 30%, primarily due to lower distribution costs relative to gyms.
- On the other hand, digitization makes fitness alternatives more convenient for customers with the ability to train at home and more scheduling flexibility with trainers in other time zones.
- Digital platforms are also attracting more and more trainers. While value-added tech tools boost efficiency and effectiveness, digital platforms reduce time spent traveling to clients.
- The Personal Trainer Development Center reports that 83% of trainers anticipate providing virtual services in August 2020, up from 39% before COVID-19.

Addressable Market

Market Need

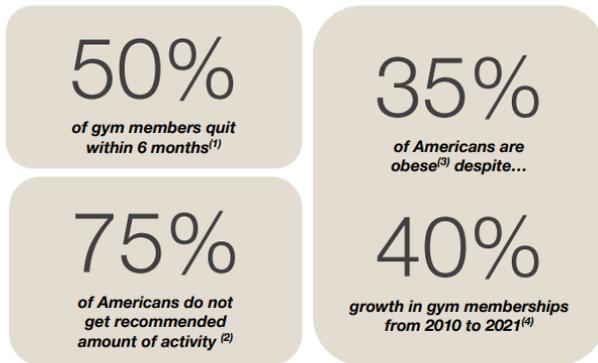
The need for health coaching has grown beyond fitness

Traditional fitness is not working for most people...

The fitness industry largely provides “self-serve” offerings to people, leading to low satisfaction and attrition

...and consumer wellness goals are expanding

The pandemic focused consumers on their well-being, especially the benefits of exercise for mental health and longevity



Mental Health

78% of Americans say primary reason to exercise is for mental health⁽⁵⁾

Longevity

1-3% of muscle loss every year after age 40⁽⁶⁾

Human Connection

People with strong relationships are likely to live longer than those who don't⁽⁷⁾

Source: 1. IHRSA (2020), 2. Biospine (as of July 5, 2018), 3. American Psychological Association (as of April 2012), 4. IHRSA (2021), 5. Mintel (2021), 6. Healthline (as of May 25, 2017), 7. Harvard Health Publishing (as of January 11, 2015)

Source: Company Presentation

- The Global Wellness Institute stated that \$4.4 trillion was spent globally on wellness in 2020, of which \$740 billion was spent on fitness and other wellness-related activities, including yoga, barre, and Pilates.
- The International Health, Racquet & Sportsclub Association also stated that the US gym and health club industry had around 64 million gym memberships and generated \$35 billion in revenue in 2019, representing CAGR of 4% and 6%, respectively, indicating consistent underlying growth in demand for fitness offerings.
- Besides, reports from the Bureau of Labor Statistics and IHRSA reveal that over 8 million Americans use personal training services each year, and 32 million Americans engage in strength training.
- Thus, the company predicts that in 2021, more than \$5 billion in fitness equipment will be bought in the US for home usage. Their addressable market has around 10 million households, with a potential revenue of \$18 billion.
- Since more people are engaging in health and wellness activities, the fitness business has been steadily expanding. In addition, IHRSA estimates that the US health club industry's income increased by about 6% yearly.
- According to IHRSA, the effects of COVID-19 had a severe negative impact on the brick-and-mortar fitness business, resulting in a 57% decline in revenue from \$35 billion in 2019 to \$15 billion in 2020.
- Alternatively, 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.

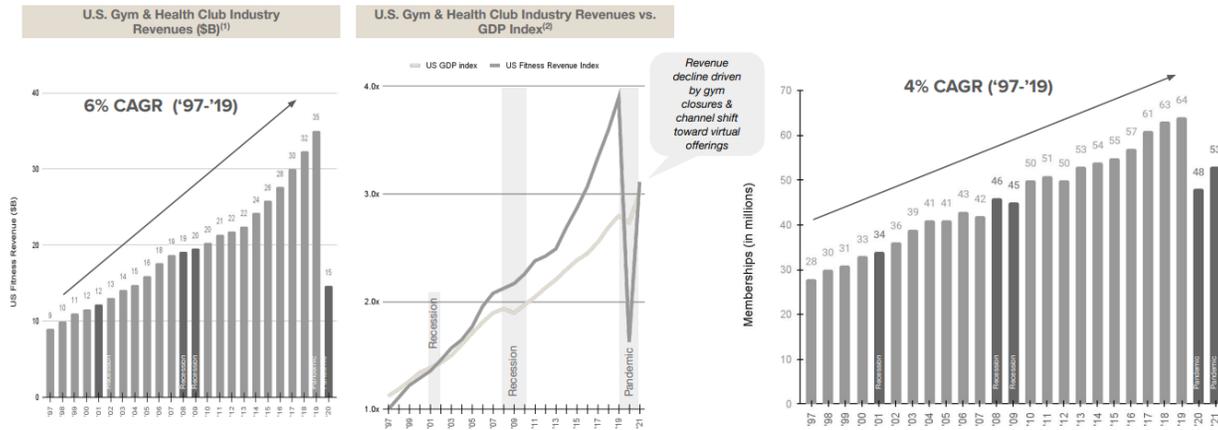
- This demonstrates that underlying interest in health and wellness activities is still strong.

Secular Consumer Industry

Prior to COVID, fitness industry revenues grew steadily and were resilient to recessions and downturns

GROWTH INDUSTRY & RECESSION-RESISTANT

TOTAL NUMBER OF MEMBERSHIPS AT US FITNESS CENTERS & HEALTH CLUBS⁽³⁾



Note: Dark gray bars represent years of recession or pandemic
 Source: 1. IHRSA (2021), 2. IHRSA (2021), World Bank (2021), 3. IHRSA (2021)

Source: Company Presentation

Strong Management Team

Leadership Team

The right experience to digitize health coaching

 <p>Trent Ward Co-Founder & CEO Experience: 19 years</p> 	 <p>Deepak Mulchandani Chief Technology Officer Experience: 31 years</p> 	 <p>Ben Bartlett Co-Founder & President Experience: 12 years</p> 
 <p>Janet Higdon Co-Founder & CCO Experience: 24 years</p> 	 <p>David Harris Chief Innovation Officer Experience: 41 years</p> 	 <p>Stuart Bryan Sr. Director, Finance Experience: 23 years</p> 

Source: Company Presentation

- 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.
- On the other hand, Stuart Bryan 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

Income Statement - All Data In USD 000's

Particulars	2020	2021	2022*
Total Revenue	0	323	487
Fitness product revenue	0	319	402
Subscription revenue	0	4	53
Training revenue	0	0	32
COGS	-358	-5165	-6661
Cost of fitness product revenue	107	2,652	2,047
Cost of subscription	251	2,513	4,614
Gross loss	-358	-4,842	-6,174
<i>% of revenue</i>		-1499%	-1268%
Research and development	8,042	16,300	15,284
Sales and marketing	1,539	6,566	5,194
General and administrative	6,598	9,348	11,774
Total operating expenses	16,179	32,304	32,252
EBIT (Loss)	-16,537	-37,146	-38,426
<i>% of revenue</i>		-11500%	-7890%
PBT (Loss)	-12,709	-32,836	-39,415
<i>% of revenue</i>		-10166%	-8093%
PAT (Loss)	-11,183	-32,840	-39,415
<i>% of revenue</i>		-10167%	-8093%

- Let us start off with analyzing the most recent and historical income statement reported by the company in its S1.
- It is important to note that all 2022 data above is for the 9-month period ended 30th September 2022 as extracted from the company's S1.
- Forme has reported a top-line of \$323k for 2021 and this has grown to \$487k in the first 9 months of 2022.
- This top-line growth was driven by a combination of increased fitness product sales coupled with nearly \$53k in the form of subscriptions which are mostly recurring in nature and the company has nominal churn.
- Its training revenue also shot up to \$32k in 9 months and is expected to follow an upward trajectory.
- The company reported a negative gross margin and its EBITDA for the past years as well as its operating income (EBIT) was reported to be negative.
- However, this is not a discouraging sign as the margin of losses is dropping rapidly and the company is on track to reach its break even in the coming 4-5 years.

Balance Sheet - All Data In USD 000's

Particulars	2020	2021
Assets		
Current assets:		
Cash and cash equivalents	11	1697
Inventories, net	44	2,056
Income tax receivable	-2	-7
Vendor Deposit	716	3,944
Prepaid expenses and other current assets	1,328	1,165
Total current assets	2,097	8,855
Property and equipment, net	674	2,190
Intangible assets, net	1,654	2,655
Other assets	1,430	8,366
Total assets	5,855	22,066

Liabilities and stockholders' equity

Current liabilities:

Accounts payable	4,142	2,114
Accrued expenses and other current liabilities	1,181	2,420
Deferred revenue	—	15
Related party loan payable	6,756	6,927
Convertible note payable	2,546	—

Total current liabilities **14,625** **11,476**

SAFE liabilities	4,655	—
PPP loan payable	—	520

Total liabilities **19,280** **11,996**

Commitments and contingencies (Note 14)

Series Seed convertible preferred stock, par value \$0.0001; 6,462,258 and 1,503,002 shares authorized as of December 31, 2021 and 2020, respectively; 42,999 and 9,939 shares issued and outstanding as of December 31, 2021 and 2020, respectively; liquidation preference of \$15.8 million as of December 31, 2021.	2,986	7,594
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Series A convertible preferred stock, par value \$0.0001; 19,696,870 and 0 shares authorized as of December 31, 2021 and 2020, respectively; 96,911 and 0 shares issued and outstanding as of December 31, 2021 and 2020, respectively; liquidation preference of \$57.2 million as of December 31, 2021.	—	22,139
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Stockholders' equity

Common stock, par value \$0.0001; 86,000,000 and 17,000,000 shares authorized as of December 31, 2021 and 2020, respectively; 213,065 and 55,447 shares issued and outstanding as of December 31, 2021 and 2020, respectively.

Additional paid-in capital	1	3
	8,041	37,806
Accumulated other comprehensive (loss) income	20	-159
Accumulated deficit	-24,473	-57,313
Total stockholders' deficit	-16,411	-19,663

Total liabilities, preferred stock and stockholders' equity	5,855	22,066
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- When we analyze the company's annualized historical balance sheet, we see that the company has a very strong liquidity position which will be further enhanced by the funds raised from the IPO.
- The fresh funds should be enough to fund the company's cash burn for another year at least.
- Also, it is important to note that Forme is nearly debt free which means that there is no risk of leverage of loan defaults and the company would be using the funds raised purely to bolster growth and not to repay its debt.
- We see a sharp rise in fixed assets implying that the management is investing heavily in its growth too.

Cash Flow Summary - All Data In USD 000's

Particulars	2020	2021
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Net cash used in operating activities	-13,423	-38,256
<i>% of revenue</i>		<i>-11844%</i>
Net cash used in investing activities	-3,308	-12,359
Net cash provided by financing activities	17,154	52,452

- Forme burnt \$-3.8million in terms of operating cash flows for the year ended 31st December 2021 which was basically most of its EBITDA
- The company has used close to \$7 million of cash in the past 2 years which included everything ranging from R&D for product development as well as product marketing and gathering the initial subscribers.
- It can be said that the company's initial investments in the business have been quite frugal and the management is spending its money wisely.

Financial Forecasts - All Data In USD 000's

Particulars	2022E	2023E	2024E
Revenues	649	1889	4630
<i>% growth</i>	<i>101.0%</i>	<i>190.9%</i>	<i>145.1%</i>
Cost of Goods Sold	-8881	-7993	-7194
<i>% of revenue</i>	<i>-1368%</i>	<i>-423.2%</i>	<i>-155.4%</i>
Gross Income (excl. D&A)	-8232	-6104	-2564

<i>% of revenue</i>	-1268%	-323%	-55%
EBITDA	-40237	-38109	-34569
<i>% of revenue</i>	-6197%	-2018%	-747%
EBIT	-40237	-38109	-34569
<i>% of revenue</i>	-6197%	-2018%	-747%
EBT (GAAP)	-40237	-38109	-34569
<i>% of revenue</i>	-6197%	-2018%	-747%
Net Income (GAAP)	-40237	-38109	-34569
<i>% of revenue</i>	-6197%	-2018%	-747%
Earnings Per Share (GAAP)	-0.67	-605.20	-548.98

Particulars	2022E	2023E	2024E
Net Income (GAAP)	-40237	-38109	-34569
+/- Working Capital, Deferred Taxes & Other Adjustments	7243	6860	6222
Cash Flow from Operations	-32994	-31250	-28347
<i>% of EBIT</i>	82.0%	82.0%	82.0%
Capital Expenditure	-12791	-10489	-8601
<i>% of revenues</i>	1969.9%	555.3%	185.8%

Other Investment Cash Flow items	0	0	0
Cash Flow after Investments	-12791	-10489	-8601
Free Cash Flow	-45785	-41738	-36947
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Growth & Margins	2022E	2023E	2024E
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Sales Growth	101.0%	190.9%	145.1%
EBITDA Margin	-6196.7%	-2017.5%	-746.7%
EBIT Margin	-6196.7%	-2017.5%	-746.7%
Net Profit Margin	-6196.7%	-2017.5%	-746.7%
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- 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 over 100% for both, 2023 and for 2024 driven by a combination of equipment sales as well as recurring revenues from subscriptions and training.
- This growth is expected to translate into a negative gross margin for now but we expect a sharp decline in the margin of loss with an expected break even around 2026.
- Forme's EBIT margin is also expected to be negative in the near future but an operating break even could be expected around 2027 which is still better than most of such players such as Peloton and Tonal which are incurring huge losses even after many more years in the business as compared to Forme.
- In terms of the cash flows, we expect Forme to burn significantly lower cash with each passing year as the marketing spend with respect to customer acquisition is expected to go down.
- We expect the company's EBITDA-to-Operating-Cash-Flow conversion ratio to stay consistently above 80%
- Forme's Net Debt is expected to decrease is expected to follow a similar trend over the coming years as it will continue to raise funds through equity.
- 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.

PEER VALUATIONS

Comparable Name	Forward EV/ Revenue	Forward EV/ EBITDA	Forward P/E	Forward Market Cap/ FCF
Peloton Interactive, Inc.	16.35x	NA	NA	-0.14x
Technogym S.p.A.	2.13x	11.02x	21.67x	24.31x

Johnson Health Tech .Co., Ltd.	1.00x	10.48x	20.56x	12.06x
Nautilus, Inc.	0.47x	(4.45x)	(1.52x)	-

Median	1.57x	10.75x	21.12x	18.19x
Mean	1.44x	10.75x	21.12x	18.19x
Max	16.35x	11.02x	21.67x	24.31x
Min	0.47x	10.48x	20.56x	12.06x

- Forme is a loss making company and its near-term forecasts are negative which is why it is difficult to do a DCF valuation of the same.
- When we look at its closest peers, almost all of them have negative earnings multiples. We see Peloton trading at over 16x forward revenues.
- Given that Forme could easily generate over \$4 million in revenues in the coming year, if we apply the same multiple, the company should have a market capitalization of \$64 million which appears to be a fair valuation of the stock.

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. 27-02-2023.
- 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 February 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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