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Issue No. 92: Will Apple Acquire Peloton?

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With $193B in the coffers and a market cap approaching $2T, Apple could easily acquire Peloton. But they probably won't. Here's why.

A Perfect Match

To many onlookers, Apple and Peloton are a perfect match. The alignment is so synergistic, they say, that the tech giant should scoop up the connected fitness company.

In short, like Apple, Peloton is a premium brand. Both companies combine sleek hardware with subscription revenue. And they have excellent gross margins on their respective hardware — Apple sits at 35%, and Peloton checks in at 44%.

Apple's retail footprint is another factor. Showrooms have bolstered Peloton's growth, leading the company to invest in 100 or so locations across the US and abroad. Similar to lululemon's acquisition of Mirror, an Apple-owned Peloton would gain access to 510 Apple Stores in 25 countries.

Sealing the deal, Apple's increased emphasis on health is cited as the primary motivator for acquiring Peloton.

Apple + Peloton

According to Tim Cook, the company's chief executive, health will be Apple's "greatest contribution to mankind."

With that declaration in mind, those in favor of a Peloton deal envision a world in which stats from a session on the luxe stationary bike automatically sync with Apple's HealthKit. Leveraging the insights gleaned from millions of workouts, Apple will perfect its AI, sensors, and broader health ecosystem.

Going a step further, this health data will be available to healthcare organizations and healthcare providers. Your monthly premium will be lower, your doctor can provide better care, and Apple can ping you with health-related reminders and warnings.

Sounds fantastic. Where do we sign up?

Apple Health

It’s true; Tim Cook hopes to make health central to Apple’s legacy. But his vision—the one meant to alter civilization—probably doesn’t entail selling $2,200 stationary bikes or $4,000 treadmills.

Instead, Cook has been clear about his intentions: to democratize healthcare and empower individuals to manage their own health. With an emphasis on rigor, privacy, and healthcare partnerships, Apple’s actions bear this out.

Back in 2014, Apple introduced Health and HealthKit. Later, in 2015, Apple Watch hit the scene along with ResearchKit. Since then, subsequent releases have produced CareKit, fall detection, FDA-approved features for ECG and AFib, and Health Records on iPhone.

When it comes to consumer health companies like Peloton, Oura Ring, WHOOP, or Eight Sleep, Apple wants the data, not the device. More specifically, as it related to Peloton, Apple would rather be activity agnostic—promoting movement more broadly—as opposed to focusing on specific equipment.

That way, no matter which device or workout you choose, Apple’s healthOS will aggregate your data, routing it to your personal health record, doctor, and insurance provider.

Healthcare ≠ Fitness

The misalignment between Apple and Peloton reveals itself when the distinction between fitness and healthcare is made clear.

Peloton is a fitness company disrupting the $100B global health club industry. Apple is targeting the $3.65T healthcare industry. While Peloton works to reduce the price of its treadmill and capitalize on the demand for bootcamp classes, Apple is conducting research on dementia, stroke detection, and the treatment of depression.

On the benefit of adding Peloton's equipment, or screens, to the Apple ecosystem, consider this: According to its S-1 filing, Peloton's total addressable market is 67M households. In comparison, there are 1.5B active Apple devices in use. And chances are, a sizable portion of Peloton's user base wears an Apple Watch and/or AirPods during their workout. So Apple gets the data, no acquisition necessary.

That's not to say that Apple doesn't see fitness content as being valuable. They do. But it's valuable to the extent that it fits within their integrated services framework. Which helps explain why the company is launching virtual fitness classes this fall.

[**Editor's note**: In Issue No. 76, *Apple Takes Aim at Fitness*, we explored the forthcoming launch in great detail.]

Described as a competitor to Peloton and Nike Training Club, the fitness subscription includes instructional videos and workout routines that sync with the Apple Watch, providing guidance and tracking the session.

And it's not just fitness content that they're after. Before COVID hit, Apple has been integrating itself into gyms and studios by way of partnerships with brands like Orangetheory Fitness, YMCA, and Crunch Fitness.

Looking Ahead

Forgoing the Peloton acquisition while pushing further into fitness content, Apple will continue pouring resources into healthcare.

According to a Morgan Stanley report, Apple could generate $15B in healthcare-related revenue in 2021. By 2027, that number could jump to $313B.

To that end, Apple will look to partner with healthcare incumbents to subsidize the Apple Watch, making it ubiquitous. By introducing new technology or improving interoperability, Apple will prioritize sleep, blood pressure, and blood glucose monitoring. And there's an opportunity to implement its services playbook herein to layer on telemedicine and Apple Pay integrations.

On the device front, Apple's track record indicates a desire to make data collection passive and omnipresent. With that, the next generation of devices could include glasses, contact lenses, or a transdermal glucose monitor. Beyond wearables, ingestibles and imbedables are well within Apple's purview.

Where, then, does that leave Peloton? During quarantine, their biggest issue has been meeting demand. A good problem to have, the company doubled down on its digital-only subscription. Now, there's nothing stopping them from scaling content production across every vertical, including meditation, sleep, and wellness-focused themes.

While a more affordable treadmill and rower have been rumored, a premium Peloton digital subscription would make a splash. By combining activity tracking with personalized workouts, the company could extract more value from digital-only subscribers while appealing to a broader audience than equipment buyers alone.

Of course, that opens the door for Peloton to mull a few acquisitions of its own — Oura Ring and Future fit nicely into the fictional scenario we're imagining.

Two other areas to keep an eye on: First, apparel. When SoulCycle also filed to go public in 2014, $18M of the company's $112M in revenue came from retail sales. Beloved among members, the sky's the limit for Peloton's apparel and accessories business.

And second, when gyms reopen, Peloton will surpass SoulCycle as the premier cycling studio. The pieces are in place if Peloton chooses to pursue it.

👤 All In Your Head

As mindfulness apps move into the mainstream, experts worry that their claims aren't backed by science.

- The global meditation market is expected to reach $9B by 2027.
- First-time downloads of the top 20 mental wellness apps in the US hit 4M in April, a 29% jump from January.

During quarantine, demand for meditation and mindfulness apps has skyrocketed. Among the benefactors, Headspace is seeing a surge. In particular, the company's enterprise offering is attracting employers seeking to ease burnout among its workforce.

The good: Headspace has seen a 500% increase in employer partnership requests since March. From Starbucks to Adobe and LinkedIn, more than 1,100 companies are enrolled in the Headspace for Work program. Better still, investors are into the Work vertical — the company secured $140M in new funding earlier this year.

The bad: Experts aren't sold on Heaspace's efficacy. As John Torous, the director of digital psychiatry at Beth Israel Deaconess Medical Center, put it: "I don't think we've seen rigorous, high quality, reproducible research."

The rebuttal: Headspace is quick to cite studies into its app's effectiveness, but outside researchers say the science doesn't live up to the hype.

Punchline: While Headspace doesn't claim to treat any medical conditions, experts are concerned that we're confusing mindfulness with mental health intervention. The fact that anxiety is climbing and employers are presenting Headspace as a solution could pose new problems going forward.

🦄 Unicorn Status

UK-based sportswear brand Gymshark is now valued at $1.3B following a ~$260M investment from private equity firm General Atlantic.

Context: Ben Francis, the company's 28-year-old founder, started the company at 19 in his parents' garage. At the time, Francis was a full-time student and Pizza Hut delivery driver.

Rapid growth: Since inception, Francis has been busy scaling the apparel brand. In 2013, online revenue surpassed $250K. By 2019, total revenue topped £176M ($232M), a 71% increase from the prior year.

Self-funded and heralded as a marketing mastermind, Francis tapped fitness expos and influencer marketing to build a passionate community and thriving business. Of note, General Atlantic's capital is the company's first outside investment, and Francis retains a 70% ownership stake in Gymshark.

Onward: In a press release, Francis said: "I firmly believe Gymshark has the potential to be to the UK what Nike is to the US and Adidas is to Germany, and today is a significant step to realising that."

📰 News & Notes

- The athlete CEO.
- ClassPass adds personal training.
- Do brands create communities or tap into them?
- John Legend joins Headspace as Chief Music Officer.

- NYC gyms can reopen August 24 at a third of their total capacity.
- How to be a successful personal trainer in the Instagram/TikTok era.

💰 Money Moves

- **Impossible Foods** raised an additional $200M in a round led by **Coature**, valuing the alternative meat company $4B. **More from Fitt Insider:** *Plant-based Meat's Product-Zeitgeist Fit*
- Private equity firm **General Atlantic** has acquired a 21% stake in UK athletic apparel brand **Gymshark** as part of its first-ever funding round, resulting in a £1B ($1.3B) valuation. **More from Fitt Insider:** *The New Athleisure Playbook*
- **Thirty Madison**, parent of DTC hair loss treatment **Keeps**, secured $47M in new financing from **Polaris Partners**, **Maveron**, **Johnson & Johnson Innovation**, and others.
- San Francisco-born **Taika**, makers of adaptogen-infused cold brew coffee, secured $2.7M in seed funding.
- **Carrot Fertility**, a healthcare startup offering employer-sponsored fertility benefits, closed a $24M Series B. **More from Fitt Insider:** *The Women's Health Revolution*
- GBeanless coffee maker **Atomo** secured $9M in additional seed funding.
- **Allergy Amulet**, developers of a pocket-sized food allergy sensor, raised a $3.3M seed round led by **Titletown Tech**, the co-venture of **Microsoft** and the **Green Bay Packers.**
- Enhanced water company **Lemon Perfect** raised $6.6M in seed funding.

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