

Compstrat Team,

The GGI Board will be convening soon to discuss the ever-evolving innovations in the AI seascape, particularly in the fitness and health arena. We're all aware of how the pandemic reshaped the arena. However, the key question remains: what can players like Tonal do to remain competitive in this rapidly shifting seascape?

To get you started, I attach some nice analysis I had our Summer Intern from Duke put together over the past few days....

Good luck with this...and look forward to seeing what you come up with.

Looking forward to the Jam Session!

Ramtin

From Gym Disruptor to Tech Pioneer: Is Tonal Ready for the Next Evolution of Fitness?

Over the past decade, technology has become more central to our lives than ever before. Every aspect of our daily routines has been transformed, from the way we pay bills and drive our cars to how we connect with each other, study, and even work out. The pandemic further accelerated this digital shift, particularly in the fitness industry, as people moved away from the social environments of gyms, Pilates studios, and yoga classes, opting instead for the comfort of home workouts. Armed with yoga mats, dumbbells, and YouTube tutorials, many began exercising in their living rooms. Yet, something was missing from this isolated workout experience compared to the structured environments they were used to. Without proper guidance, individuals were more prone to injury from incorrect movements, felt demotivated by repetitive routines, and often saw little progress towards their fitness goals, leading to a sense of monotony.

As the indoor fitness market surged, one company that saw a whopping 800% unit sales increase in 2020 was Tonal. The company, backed by high-profile athletes like LeBron James and Serena Williams, quickly gained attention and achieved a \$1.6 billion valuation by 2021. However, as people returned to gyms and hybrid fitness models, Tonal struggled to maintain its momentum. By 2023, the company's valuation plummeted to \$500 million or less. This slowdown in growth comes as Tonal recently appointed Darren MacDonald as its new CEO, tasked with accelerating the company's expansion and navigating its recovery efforts.

From Breakout Success to Market Struggles: Tonal's Rollercoaster Journey

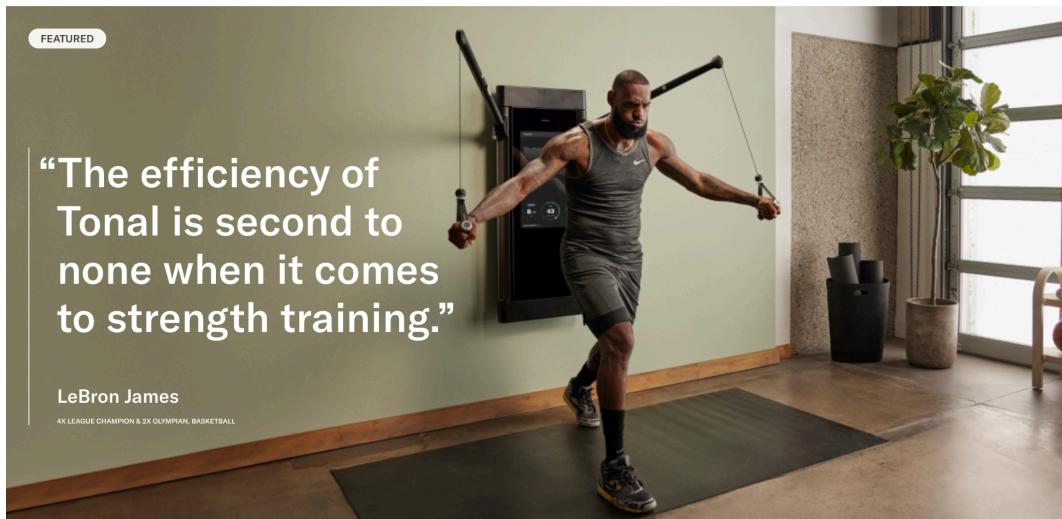


Figure 1: Aly Orady's vision reimagines strength training with Tonal's sleek and advanced resistance design

Tonal's story began in 2015, with founder Aly Orady aiming to solve his own fitness frustrations. He envisioned a home gym system that delivered the benefits of professional strength training without the bulk and inconvenience of traditional equipment. This vision led to the creation of Tonal, a sleek wall-mounted machine that uses electromagnetic resistance and AI to guide users through personalized workouts. Orady stated, "I wanted to get fit without spending hours at the gym."

By 2020, Tonal saw rapid growth as pandemic lockdowns pushed people to seek home fitness solutions. The company attracted notable athlete investors like Serena Williams and LeBron James (*See Fig 1*) and raised significant capital, peaking with a \$250 million Series E round that pushed its valuation to \$1.6 billion.

However, as people returned to gyms, Tonal's valuation fell dramatically. Orady acknowledged the challenges, stating, "The shift back to in-person workouts was faster than we anticipated." To combat this, Tonal cut 35% of its workforce in 2022, increased prices, and sought additional funding. In 2024, Darren MacDonald was appointed as CEO to lead Tonal into its next chapter, focusing on reinvigorating growth and navigating the highly competitive connected fitness space.

Revolutionizing Strength Training: The Cutting-Edge Tech Behind Tonal

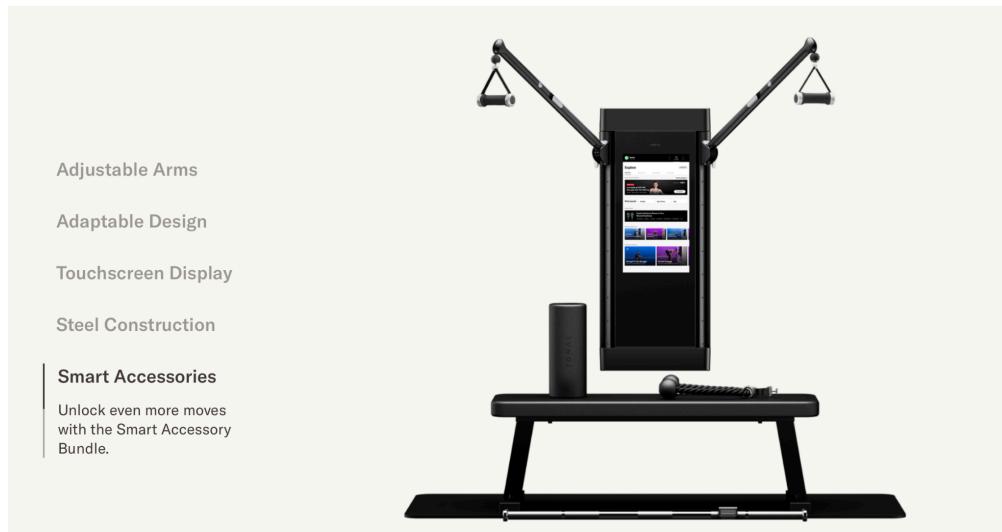


Figure 2: Tonal's AI-driven touchscreen and adjustable arms bring personalized workouts to users' homes

Tonal is a cutting-edge smart home gym that integrates advanced technology to deliver a comprehensive strength training experience. At its core, Tonal uses electromagnetic resistance, a sophisticated system that replaces traditional weights with digital ones, offering up to 200 pounds of resistance. This technology is similar to the principles used in electric vehicles, employing computer chips and coils to create an electromagnetic field that provides consistent and smooth resistance throughout exercises.

The machine features a sleek, wall-mounted design with two adjustable arms and a 24-inch interactive touchscreen. (See Fig 2) This display not only serves as the control center for workouts but also provides real-time feedback on form and technique, ensuring users perform exercises correctly and safely. Tonal's AI-driven system conducts thousands of calculations per second to adjust resistance based on the user's performance, offering personalized weight recommendations that evolve as the user gains strength.

One of Tonal's standout features is its dynamic weight modes, including Spotter, Smart Flex, Eccentric, and Chains. These modes allow users to tailor their workouts for specific goals, such as increasing muscle size or improving strength endurance. For example, Eccentric Mode increases resistance during the muscle-lengthening phase of an exercise, optimizing time under tension for better results.

Priced at approximately \$3,995, Tonal is positioned as a premium fitness solution. The cost includes the machine itself but excludes additional expenses like smart accessories

and installation fees. A subscription service is also required for access to its extensive library of trainer-led workouts and personalized training programs.

Partnerships: How Celebrity and Retail Partnerships Boosted Tonal's Brand

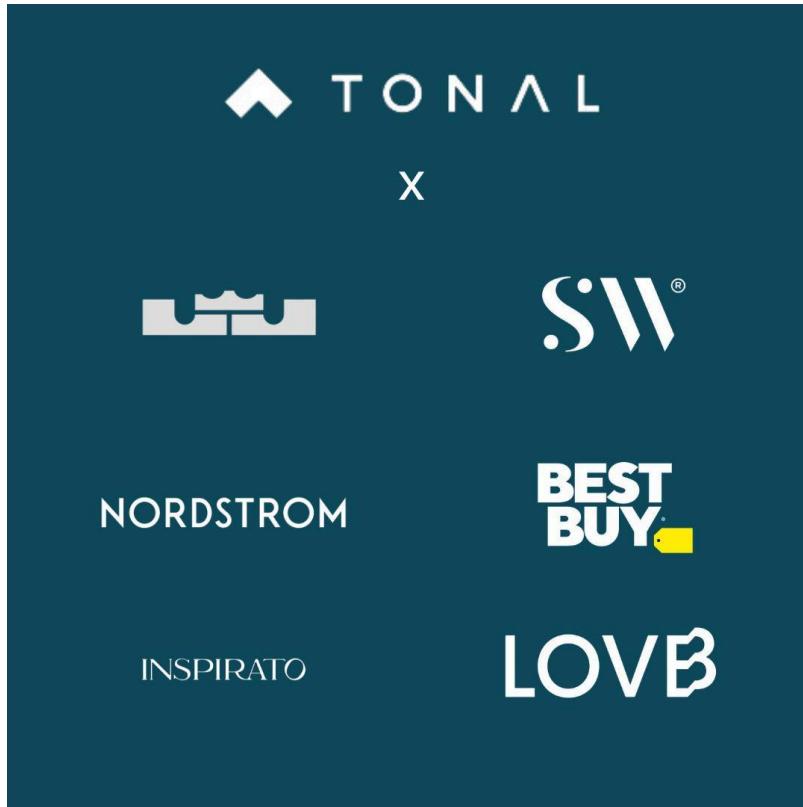


Figure 3: Celebrity Athletes and Major Retailers Enhance Tonal's Brand Visibility and Market Access

Tonal has effectively leveraged partnerships with celebrity athletes and major retailers to enhance its brand presence and expand its ecosystem. (See Fig 3) Notably, Serena Williams serves as both an investor and brand ambassador, leading the "Strength Made Me" campaign that highlights the benefits of strength training. Alongside Williams, other high-profile athlete investors include LeBron James, Stephen Curry, and Klay Thompson, who contribute to Tonal's visibility and credibility in the fitness industry.

In addition to celebrity partnerships, Tonal has strategically aligned with retail giants and luxury offerings. In 2021, they partnered with Nordstrom to introduce its smart gym equipment in 40 Nordstrom stores across the United States. In 2024, they have seen an increase in their partnerships. This collaboration with Best Buy allows Tonal products to be purchased directly from Best Buy's website, with Geek Squad managing delivery and installation. They teamed up with Inspirato, a luxury vacation club, to install its trainers

in select vacation homes. This partnership offers Inspirato members a blend of luxury living and high-performance fitness, with exclusive discounts on purchasing Tonal equipment. They also entered a multiyear partnership with LOVB to provide volleyball-specific training programs. This collaboration targets young athletes and includes initiatives like "Family Workout Nights" at LOVB clubs.

Competing in the Red Ocean: Tonal's Battle in the Fitness Tech Market

The connected gym equipment market is on a growth trajectory, valued at \$1.05 billion in 2023 and projected to expand to grow through 2030.

Few of the Key Players

- **Peloton:** Peloton's subscription based model are centered around its high-tech equipment, which includes stationary bikes, treadmills, and the Peloton Guide—a device that enables strength training by providing AI-powered workout guidance. Peloton's stock skyrocketed by 36% following their 2024 Q4 earnings report which came at the heels of their multi-year partnership with Google Fitbit.
- **Tempo Studio:** Tempo Studio offers an AI-driven strength training experience, providing real-time feedback through 3D sensors to correct form and optimize workouts. This smart home gym includes free weights and a variety of workout classes catering to users seeking a comprehensive at-home fitness solution.
- **NordicTrack X22i Incline Trainer:** Part of iFIT's offerings, this treadmill features interactive training sessions with a large display for immersive workouts. It is designed for users who want to simulate outdoor running conditions with adjustable incline settings.
- **HydroRower:** Specializing in rowing machines, Hydrow offers live and on-demand rowing classes that simulate on-water experiences. It focuses on delivering full-body workouts with an emphasis on cardio.

As the home fitness sector evolves into an increasingly red ocean, there's a strong likelihood that big tech companies are quietly innovating in their AI labs, gearing up to secure a dominant foothold. We've already seen the larger health tech arena infiltrated by smartwatches, rings, and other wearable technology. But as tech giants seek new frontiers to revolutionize the health and wellness landscape, could Apple, Microsoft, Google, or Amazon be next in line to reshape the future of fitness? Will they bring forth

transformative partnerships with AI powerhouses like OpenAI, Perplexity, and Anthropic?

And what if this goes beyond fitness? Could the fusion of AI and health tech extend into personalized wellness ecosystems, where every aspect of our lives—from workouts to recovery, nutrition, and mental health—is optimized by intelligent machines? Are we on the cusp of a health tech revolution that will blur the lines between home, work, and wellness, creating a new paradigm for how we approach our physical and mental well-being? The battle for dominance in this space might not just redefine fitness—it could change the very fabric of how we live.

What's next?

As Tonal navigates new leadership, an increasingly competitive market, and a surge in AI, how can it stay afloat? Will it be the leader in the next wave of fitness innovation or be outmaneuvered by the tech giants eyeing this space? How will it maintain its competitive edge? Could the new developments in AI propel the company into an arena larger than fitness equipment? How should Darren MacDonald carve out the three horizons moving forward?

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