Company: XFit, Inc.

Market: Home fitness equipment

Product: Interactive fitness products focused on boxing, kick-boxing, and mixed martial arts

Company Highlights

- Patented Nexersys product line with over 4,700 Nexersys machines and over 4,600 Cross-Body Trainers sold
- Over $750,000 in revenue in 2018 with a gross profit margin of 67%
- Recently initiated direct-to-consumer (D2C) digital media campaign achieving sales of 3-4X media spend
- As evidence of the success of the advertising campaign, August sales of Nexersys units increased 45% compared to July during our slowest time of the year for D2C sales.

EXECUTIVE SNAPSHOT

In September 2017, XFit purchased the assets of the Nexersys business including product lines, patents, brands, code, supply chain, and distribution relationships. Based in Austin, Texas, XFit develops and sells fitness products that combine gaming with fitness to deliver fast, fun, and effective boxing style workouts. Terry Jones, the CEO of XFit, was the founder and original developer of Nexersys and he and his team have continuously run the business since inception.

Since their launches in 2012 and 2015, respectively, over 4,700 Nexersys machines and 4,600 Cross-Body Trainers have been sold. For several years, due to a lack of capital, there had not been any material funds spent on advertising or marketing. In anticipation of this offering and with the increased awareness of interactive fitness products such as Peloton and the Mirror, the company began testing digital media advertising and the results have exceeded expectations. The company plans to launch the youth version of the Nexersys in Q4 2019. The company is also working towards releasing subscription-based content in early 2020.

The Nexersys product has been featured on Fox News and television shows such as NCIS: Los Angeles, Disney’s Kickin’ It, Shark Tank, The Biggest Loser, and more.
PERKS

*You are investing in a Crowd Note in this offering. Perks are meant to be a thank you from the company for investing. The perks below are NOT INCLUSIVE of lower dollar amount perks. Travel and related expenses are not included unless otherwise stated.

$250+: 10% off the purchase of any Nexersys model.

$1,000+: 15% off the purchase of any Nexersys model and a free pair of Boxing or MMA gloves.

$2,500+: 20% off the purchase of any Nexersys model and a free Champion Package.

$5,000+: Online video conference with the XFit team and 25% off the purchase of any Nexersys model with a free Family Package.

$25,000+: Onsite meet and greet and lunch with the XFit Team and 25% off the purchase of any Nexersys model with a free Family Package.

COMPANY SUMMARY

Opportunity

There is a growing movement in fitness and training to ditch the traditional gym in favor of working out at home. Many people who sign up for a gym membership abandon it quickly - in fact, data compiled by the Guardian indicates that the gym dropout rate in the first eight weeks after signing up could be as high as 80%. This high dropout rate can be attributed to a multitude of factors, including distance, lack of an effective workout plan, or not wanting to pay for a trainer. Another primary driver of this change towards interactive at-home fitness is the growing number of programs and new technologies enabled by the internet. There are a number of options for people seeking an interactive at-home fitness experience including biking, running, weightlifting, HIIT, boxing, and more.

Boxing provides a full body workout that utilizes strength and cardio to improve overall fitness. In addition to boosting strength and cardio, boxing (as well as kickboxing, MMA, etc.) can improve a number of skill-related aspects of fitness including agility, coordination, balance, and reactivity.

Combining exercise equipment and interactive gaming, Nexersys is a professional-grade multimedia fitness product that’s engineered to deliver the motivation of a personal trainer, the benefits of a mixed martial arts HIIT workout, and the entertainment and feedback available from today’s gaming and computer technology. The company seeks to engage those seeking alternative forms of High Intensity Interval Training as well as enthusiasts of various forms of striking such as boxing, kick-boxing, and mixed-martial arts.

Products

The Company designs, manufactures, and sells interactive fitness products to deliver gaming style workouts using striking skills such as boxing, kickboxing, and mixed-martial arts. Its products are protected by an extensive intellectual property portfolio which includes four issued patents and six that are pending.
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The Nexersys is built with top-of-the-line materials including a high-strength rolled steel frame, high-density foam pad with durable microfiber upholstery, and multiple printed circuit boards and a touch screen Android tablet. The N3 line offers either three or five strike pads, an adjustable height frame, and an 18.5” Tablet on the Elite and Youth models. The Commercial and Pro models include a 21.5” Tablet. Each strike pad has multi-axis accelerometers to measure power, accuracy, and response times to provide for performance feedback. The pads also feature a relief feature in order to reduce impacts from strikes. The body pad is designed to represent an anatomically accurate torso with compression and coil springs to enable movement in three axes.
The Nexersys App runs on the Microsoft PlayFab platform and delivers video and animated gaming style training content. The App provides real-time feedback evaluating the user’s performance for each training session and the App is progressive, creating new and unique workouts each time the user trains.

**Fast & Fun Workouts**
3D-animated, dynamic Mitt and Sparring rounds feature traditional and south paw training for focused fitness at both the beginner and expert level.

**Track Your History**
WiFi cloud-based fitness app allows you to create unlimited user accounts and track your progress from any Nexersys unit.

**Personalize Your Training**
Create your own custom profile and select between round types, training durations, and skill levels.

**Cross-Body Trainer**

Launched in 2015, the Cross-Body Trainer is a free-standing boxing bag. The product features a height and tension-adjustable shock cord, a tablet or phone holder, a three-axis Bluetooth strike sensor, and a mobile app for iOS and Android devices. The mobile app allows users to pick a workout based off skill level, difficulty, and duration. The app also tracks performance history and offers challenges to help motivate users.

The Cross-Body Trainer comes in a Home model that is ideal for consumers who are looking for a low-cost interactive workout and the Pro model that is ideal for commercial gyms and professional boxing and MMA athletes.
The company also sells accessories including boxing & MMA gloves, hand wraps, and its unique Sports Towel, that can be used during workouts or as a car seat cover.
Use of Proceeds and Product Roadmap

The company plans to allocate the majority of proceeds from this raise towards digital advertising, purchasing additional inventory, enhancing its user content and marketing collateral, and general working capital. If the minimum amount is raised, the company will allocate over 70% towards digital advertising, while using the remainder to market the campaign. If the maximum of $1.07 million is reached, the company will allocate $250,000 towards purchasing inventory, $300,000 towards digital advertising, $100,000 on enhancing content, roughly $30,000 towards campaign marketing, and the remainder towards general working capital.

In Q4 2019, the company plans to release a youth version of the Nexersys. In early 2020, the company plans to release its enhanced, subscription-based content. While the company plans to spend heavily on digital marketing, it also intends to spend on developing interactive user content, including live content, which the company believes will result in an increasing stream of recurring subscription revenue. XFit believes that its migration to the Microsoft PlayFab platform provides a cross-over between fitness and gaming, further increasing its potential appeal to consumer markets.

The Company engaged Darwin Insights in April 2019 and began testing direct-to-consumer digital advertising for the N3 Elite in June. XFit commenced its N3 Elite direct-to-consumer campaign and the campaign delivered media efficiency and sales results in June, July, and August, which exceeded expectations. Sales of Nexersys units were $279,537 and 79 units for the first six months of 2019, $69,093 and 22 units in July, and $99,562 and 32 units in August. XFit is procuring additional N3 Elite inventory to support increased media spend and plans to add the N3 Commercial/Pro models in October and the N3 Youth model in December to the advertising campaign.

Business Model

XFit currently derives its revenue from product sales but plans to derive an increasingly large portion of revenue and earnings from recurring monthly subscription revenue as it develops enhanced workout content. Currently, the company is operating with a 67% gross profit margin through the sales of products. With the addition of its monthly subscription revenue, it plans to further increase its margins. The company’s products are priced as follows:

- **Nexersys N3**: XFit currently sells the Nexersys Elite for $2,295, the Pro for $5,495, and the Commercial for $6,995. The Elite is the home version that will be the focus of its direct-to-consumer advertising campaigns. The company has not yet determined a price for the Youth model.
- **Cross-Body Trainer**: The Cross-Body Trainer Home model sells for $245 while the Pro unit sells for $795.
• **Accessories:** The Company also sells other accessories such as boxing and MMA gloves and Sports Towels. The Sports Towel costs $24.95, the MMA and boxing gloves cost $35, and the hand wraps cost $10.

XFit, Inc. currently partners with JPaulJones, LLP, a company that designs, manufactures, and distributes various consumer products. JPaulJones currently funds any negative cash flow by carrying the inventory and receivables for XFit and deferring receipt of payment for shared overhead. XFit plans to phase out of the arrangement with JPaulJones as it becomes profitable and reaches a scale where it makes economic sense to do so. The arrangement with JPaulJones reduces XFit’s capital requirements, provides inventory for growth and allows it to utilize a substantial portion of the funds from this raise to accelerate advertising to increase sales.

**USER TRACTION**

Since inception, over 4,700 Nexersys machines and over 4,600 Cross-Body Trainers have been sold. In 2018, XFit sold over 150 Nexersys machines and roughly 110 Cross-Body Trainers. Through August of 2019, the company has sold 133 Nexersys machines and 122 Cross-Body Trainers. Except for the recent advertising tests mentioned above, the company (and its predecessor) have not been able to spend on advertising in recent years but plans to use a significant amount of proceeds from this offering to expand its digital media advertising campaign to accelerate growth. In 2012, over 950 Nexersys machines were sold with the help of spending on TV advertising. In 2014, the company sold more than 2,200 Nexersys machines due to a relationship with an Australian direct-to-consumer company. The Australian company ran into financial difficulties shortly after and had to end the relationship.

The Nexersys product has been featured on Fox News and television shows such as *NCIS: Los Angeles*, Disney’s *Kickin’ It*, *Shark Tank*, *The Biggest Loser*, and more.

**HISTORICAL FINANCIALS**

XFit, Inc. acquired the assets of its business from Nexersys Inc. in September 2017. In the four months following the acquisition, XFit generated roughly $158,000 in revenue. In 2018, the company generated revenue of $766,459 with gross profit reaching $517,010, a 67% gross profit margin. In the first eight months of 2019, the company has generated revenue of $560,025, with gross profits reaching roughly $376,500, a 28% increase from roughly $293,700 in the first eight months of 2018.
In 2018, 78% of operating expenses were incurred from general and administrative expenses (G&A). The largest G&A expense in 2018 was payroll and employee benefits totaling just over $215,000 followed by other expenses such as travel, office expenses, and computer and software expenses, totaling roughly $180,500. Sales and marketing expenses accounted for the third largest operating expense totaling just over $131,000. The company has been able to keep its expenses very low by sharing overhead with JPaulJones.
In the first six months of 2019, operating expenses reached roughly $476,000, an 88% increase from ~$253,000 in the first six months of 2018. This increase was due to an increase in payroll and an increase in marketing and sales related expenses. As of June 2019, 72% of operating expenses were incurred for general and administrative expenses (G&A). The largest G&A expense in the first half of 2019 was payroll and employee benefits totaling roughly $180,600, followed by other expenses such as travel, office expenses, and computer and software expenses, totaling roughly $126,000. Sales and Marketing expenses accounted for the third largest operating expense totaling just over $132,000. The company anticipates heavily increasing spending on marketing following this offering.

Through July 2019, the company has generated a net loss of roughly $314,000, compared to a net loss of roughly $35,100 during the same time period in 2018. In all of 2018, the company generated a net loss of approximately $193,000. The increased loss was primarily due to an increase in G&A expenses incurred to continue content and product development and to prepare to launch the planned advertising campaign while not yet materially
increasing sales due to the lack of spending on marketing. The company consumes a low amount of cash due to its 
inventory and shared overhead arrangements with JPaulJones. As of the end of June, the company had roughly 
$61,500 in cash on hand. While the company’s ability to scale revenue depends on the proceeds from this offering, 
it has adequate liquidity to operate for the next 12 months due to its arrangement with JPaulJones.

![Net Income Chart]

**INDUSTRY AND MARKET ANALYSIS**

*Health and Wellness*

Health and wellness are daily, active pursuits for the millennial generation. In a recent study, millennials prioritized 
health and wellness above all response options but family: 79% of millennials said family was most important in 
their lives, followed by health and wellness at 53%, and friends at 39%. Although the millennial generation is earning 
less than older generations, they are spending more on health and fitness. Technology has also given millennials 
easier access to health and wellness information and personal health monitoring.iii

In 2017, U.S. fitness centers had total revenues of just over $30 billion with more than 30,000 membership-based 
exercise facilities throughout the country.iv Among these facilities, there were about 61 million members in 2017 
compared to about 50 million members in 2010.v Approximately 52% of all gym members also use either a DVD, 
gaming and/or online workout program at home. This number climbs to 70% for higher frequency gym attendees. 
In addition to exercising at an exercise facility, 82% of gym members and casual gym members also exercise at 
home.vi

*Fitness Equipment*

The U.S. fitness equipment market was valued at $3.6 billion in 2016 and is projected to reach $4.4 billion by 2024, 
growing at a compound annual growth rate (CAGR) of 2.5% from 2017 to 2024. The highest revenue generating 
segment of the market is cardiovascular equipment, which holds around 60% of the total market share. Further, 
cardiovascular equipment is forecasted to grow to 65% of the market by 2024.vii
COMPETITORS

**FightCamp:** Founded in 2013, FightCamp is an interactive at-home subscription fitness service. The FightCamp product includes a free-standing punching bag, genuine-leather training gloves, punch trackers, wrist wraps for security and to firmly hold the trackers, and a large mat to work out on to keep the bag from sliding and the floors from scratching. The punch trackers track and display punch volume, speed, and output in real time. The FightCamp subscription features 24/7 access to a large collection of high-energy boxing workouts and expert-led instructional videos. The FightCamp Gym package costs $1,095 and requires a FightCamp Membership for access to unlimited workout content for $39 per month. The company received an investment from Y Combinator in 2016.

**Peloton:** Founded in 2012, Peloton offers customers live boutique studio fitness classes on state-of-the-art equipment from the comfort of their own home. Peloton users can choose from a variety of workouts such as cycling, running, strength training, yoga, outdoor workouts, and more. In 2014, the company began offering consumers a stationary bike with an oversized touchscreen for participating in both live and on-demand classes. In 2018, Peloton released a digital subscription membership offering guided classes and a treadmill known as Peloton Tread. In August 2018, Peloton raised $550 million in funding led by TCV with participation from Kleiner Perkins Caufield & Byers, Tiger Global Management, and GGV Capital, valuing the company at $4.15 billion.

**MIRROR:** MIRROR offers a nearly invisible, interactive home gym featuring live and on-demand fitness classes in a variety of workout genres via a connected mirror. Classes include cardio, strength, yoga, barre, Pilates, boxing, HIIT, and more. The company brings the essential components of a great studio workout – variety, personalization, and community – to a customer’s home. The MIRROR costs $1,495 with a $39 per month subscription. In September 2018, the company raised $25 million in funding from Spark Capital.

**Expresso:** Interactive Fitness Holdings, LLC is the parent company of Expresso and CyberCycle. CyberCycle was created for older adults and designed to meet the unique physical needs of seniors. The Expresso features three different ways to workout including interactive road racing, studio cycling, or HIIT Gaming. Road racing can be interactive with other riders and features over 300 miles of various scenery. Studio cycling provides an OnDemand selection of various workout classes from expert trainers. The HIIT gaming feature allows riders to leave the traditional road and enter different worlds filled with treasures, dragons, and more.

EXECUTIVE TEAM

**Terry G. Jones, CEO:** Terry also serves as the CEO and President of JPaulJones LP, a company that designs and manufactures innovative consumer products. Terry has more than 25 years of experience developing and marketing consumer products including the LoadHandler, a truck accessory and the Barton, a medical device for patient transfers. Terry graduated with a Bachelor of Business Administration from Texas A&M University.
Cary Grossman, President: Cary currently serves as the Managing Director of Shoreline Capital Advisors, an investment banking firm that he co-founded in 2010 that focuses on corporate finance transactions in the $50-$150 million range. Prior to Shoreline, he co-founded and was the CEO of another investment banking firm, McFarland, Grossman & Company. Cary has more than 40 years of management and finance experience and has held numerous other executive level positions including CFO of Blaze Metals, CFO and COO of Gentium, S.P.A., CEO of ERP Environmental Services, and CFO of U.S. Liquids, Inc. Cary is a Certified Public Accountant and earned a Bachelor of Business Administration from the University of Texas.

INVESTMENT TERMS

Security Type: Crowd Note
Round Size: Min: $100,000 Max: $1,070,000
Valuation Cap: $6,000,000
Discount: 20%
Conversion Provisions: In connection with an equity financing of at least $1,000,000, the Company has the option to convert the Crowd Note into non-voting preferred stock (Conversion Shares) at a price based on the lower of (A) a 20% discount to the price per unit paid for Preferred Stock by investors in the Qualified Equity Financing or (B) the price per share based on a $6,000,000 valuation cap. Please refer to the Crowd Note for a complete description of the terms of the Crowd Note, including the conversion provisions.

Transaction Type: Primary

PRESS

At Home Fitness: Nexersys Pro Boxing Machine Spices Up Workouts
Fitness-Gaming: Nexersys Combines Boxing and HIIT with Intelligent Gaming Technology
Built In Austin: From coffee to boxing, these 7 startups are helping make Austin a hardware hub
Racked: I Am So Excited About the Bravo 'Work Out New York' Couple’s New Gym

RISKS

Investment Risk

An investment in the company is speculative, and as such is not suitable for anyone without a high tolerance for risk and a low need for liquidity. You should invest only if you are able to bear the risk of losing your entire investment. There can be no assurance that that investors will receive any return of capital or profit. Investors should have the financial ability and willingness to accept the risks (including, among other things, the risk of loss of their entire investment and the risks of lack of liquidity) that are characteristic of private placement investments. There will be no public market for the securities being offered, applicable securities laws will restrict any transfer of the securities, and the securities will not be transferable without the company’s consent.

The information provided herein is not intended to be, nor should it be construed or used as, investment, tax or legal advice, a recommendation to purchase, or an offer to sell securities of the company. You should rely on the offering statement and documents attached as exhibits to the offering statement when making any investment decision. An investment in the company is not suitable for all investors.

Company Risks
The company’s industry is highly competitive, and the company may not be able to compete effectively against the other businesses in its industry. The company is subject to a number of significant risks that could result in a reduction in its value and the value of the company securities, potentially including, but not limited to:

- Rapidly changing consumer preferences and market trends,
- Inability to expand and maintain market acceptance for the company’s services and products,
- Inability to gain access to international markets and comply with all applicable local laws and regulations,
- Inability to achieve management’s projections for growth, to maintain or increase historical rates of growth, to achieve growth based on past or current trends, or to effectively manage rapid growth,
- Inability to develop, maintain and expand successful marketing relationships, affiliations, joint ventures and partnerships that may be needed to continue and accelerate the company’s growth and market penetration,
- Inability to keep pace with rapid industry, technological and market changes that could affect the company’s services, products and business,
- Technological problems, including potentially widespread outages and disruptions in Internet and mobile commerce,
- Potential costs and business disruption that may result if the company’s customers complain or assert claims regarding the company’s technology,
- Failure to adequately address data security and privacy concerns in compliance with U.S. and international laws, rules and policies,
- Performance issues arising from infrastructure changes, human or software errors, website or third-party hosting disruptions, network disruptions or capacity constraints due to a number of potential causes including technical failures, cyber-attacks, security vulnerabilities, natural disasters or fraud,
- Inability to adequately secure and protect intellectual property rights,
- Potential claims and litigation against the company for infringement of intellectual property rights and other alleged violations of law,
- Difficulties in complying with applicable laws and regulations, and potential costs and business disruption if the company becomes subject to claims and litigation for legal non-compliance,
- Changes in laws and regulations materially affecting the company’s business,
- Liability risks and labor costs and requirements that may jeopardize the company’s business,
- Dependence on and inability to hire or retain key members of management and a qualified workforce,
- Ongoing need for substantial additional capital to support operations, to finance expansion and/or to maintain competitive position,
- Issuance of additional company equity securities at prices dilutive to existing equity holders,
- Potential significant and unexpected declines in the value of company equity securities, including prior to, during, and after an initial public offering, and
- Inability of the company to complete an initial public offering of its securities, merger, buyout or other liquidity event.

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1. https://www.entrepreneur.com/article/290579


viii https://joinfightcamp.com/shop/

ix https://www.ycdb.co/company/fightcamp

x https://fortune.com/2018/08/03/peloton-funding-tcv/