

Peloton

Peloton still chasing sub growth and path to positive cash flow; Reit U/P, PO to \$4

Reiterate Rating: UNDERPERFORM | PO: 4.00 USD | Price: 4.21 USD

F2Q: weak hardware sales and FCF breakeven pushed out

PTON reported F2Q24 revenue of \$744mn slightly above Street estimate of \$736mn and slightly above our est. at \$741mn. EBITDA at \$(82)mn was below our estimate at \$(70)mn and Street at \$(77)mn driven by higher S&M spend. Connected Fitness Subs at 3,004k were above our estimate at 2,979k (Street was 3,010k), with lower churn at 1.2% vs our 1.35% estimate. FCF was negative at a loss of \$37mn, because of weaker hardware sales (less upfront revenue) and mix shift to bike rentals causing inventory led headwinds. Peloton pushed out their forecast for achieving positive cash flow to 4Q24 vs. outlook of 2H24 and no longer expects breakeven free cash full for fiscal 2024.

3Q guide disappoints and 4Q EBITDA look optimistic

PTON's 3Q rev. guide of \$715-750mn which at the midpoint is below the Street at \$747mn. Outlook suggests softer than earlier expected hardware sales, partially offset by faster growth for Bike rental program and revenue from deliveries of Tread+. Mgmt. expects to reach positive revenue growth in 4Q24. Solid y/y & q/q gross margin improvement was a positive in outlook. Overall, the outlook was disappointing given a lack of traction in growth initiatives, lower EBITDA on higher than expected OPEX, and FCF breakeven targets pushed out.

Lower estimates and PO to \$4.00

For F3Q24, we are lowering our revenue by \$20mn to \$724mn and EBITDA by \$30mn to \$(25)mn. For FY24, we are lowering revenue by \$7mn to \$2.7bn and EBITDA remains almost unchanged at \$(81)mn. We reduce our free cash flow estimate to \$(153)mn from \$(91)mn in FY'24, though expect positive FCF in F4Q24. We lower our PO to \$4.00 from \$4.60, based on lower cash and 2025 subscriber gross profit still on a 2.3x multiple.

Remain cautious on subscriber growth. Reiterate U/P

As we highlighted in our [October downgrade](#) report, Peloton's biggest issue remains consistent subscriber growth or in the words of Peloton CEO Barry McCarthy "the biggest challenge continues to be growth, at scale". While churn did perform slightly better than expected (15bps better), new growth initiatives collectively are not moving the needle. For initiatives that are working, we see tradeoffs including: 1) higher underlying churn for rentals; 2) questions around the incrementality of new subs through third party channels and 3) at least in some cases, sales through secondary markets represent one new subscriber, offset by the ending of an existing one. We reiterate our Underperform rating.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(4.11)	(1.34)	(0.36)	(0.16)	(0.07)
GAAP EPS	(8.74)	(3.64)	(1.58)	(1.23)	(1.15)
EPS Change (YoY)	NM	67.4%	73.1%	55.6%	56.3%
Consensus EPS (Bloomberg)			(1.52)	(1.04)	(0.79)
DPS	0	0	0	5.00	5.00
Valuation (Jun)					
Dividend Yield	0%	0%	0%	118.8%	118.8%
Free Cash Flow Yield*	-163.5%	-32.6%	-10.6%	-7.4%	-6.0%

* For full definitions of *IQmethod™* measures, see page 7.

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Timestamp: 01 February 2024 04:26PM EST

01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	4.60	4.00
2024E Rev (m)	2,711.1	2,704.8
2025E Rev (m)	2,631.0	2,583.8
2026E Rev (m)	2,991.8	2,973.1
2024E EPS	-0.31	-0.36
2025E EPS	-0.12	-0.16
2026E EPS	-0.05	-0.07

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Stock Data

Price	4.21 USD
Price Objective	4.00 USD
Date Established	1-Feb-2024
Investment Opinion	C-3-9
52-Week Range	4.28 USD - 17.83 USD
Mkt Val (mn) / Shares Out (mn)	1,442 USD / 342.4
Free Float	96.3%
Average Daily Value (mn)	61.96 USD
BofA Ticker / Exchange	PTON / NAS
Bloomberg / Reuters	PTON US / PTON.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Jun-2023A)	NA
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

FCF: Free cash flow

CF: Connected Fitness

Subs – Subscribers

iQprofileSM Peloton

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-34.9%	-14.1%	-3.6%	-2.7%	-1.0%
Return on Equity	-105.0%	-214.7%	NM	NM	NM
Operating Margin	-34.4%	-14.2%	-2.8%	-2.0%	-0.6%
Free Cash Flow	(2,357)	(470)	(153)	(106)	(87)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	2.2x	0.7x	0.2x	0.3x	0.2x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-67.7%	NM	NM	NM	NM
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,582	2,800	2,705	2,584	2,973
% Change	-10.9%	-21.8%	-3.4%	-4.5%	15.1%
Gross Profit	787	1,031	1,269	1,273	1,300
% Change	-48.1%	31.0%	23.0%	0.3%	2.2%
EBITDA	(926)	(209)	(81)	(49)	(15)
% Change	NM	77.5%	60.9%	40.4%	68.6%
Net Interest & Other Income	(74)	(61)	(55)	(8)	(8)
Net Income (Adjusted)	(1,325)	(465)	(131)	(60)	(27)
% Change	NM	64.9%	71.8%	54.4%	55.4%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(2,817)	(1,262)	(573)	(460)	(439)
Depreciation & Amortization	143	124	113	107	120
Change in Working Capital	(641)	114	(19)	1	(13)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,278	636	349	272	272
Capital Expenditure	(320)	(82)	(22)	(27)	(27)
Free Cash Flow	-2,357	-470	-153	-106	-87
% Change	-390.4%	80.0%	67.5%	30.5%	18.1%
Share / Issue Repurchase	84	80	19	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	696	(8)	(5)	(2)	(2)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,254	814	763	654	565
Trade Receivables	84	97	97	83	95
Other Current Assets	1,297	728	531	459	424
Property, Plant & Equipment	788	403	399	399	399
Other Non-Current Assets	783	685	637	631	627
Total Assets	4,205	2,727	2,427	2,226	2,109
Short-Term Debt	8	8	8	8	8
Other Current Liabilities	1,098	754	642	600	618
Long-Term Debt	725	594	526	446	366
Other Non-Current Liabilities	1,605	1,709	1,709	1,709	1,709
Total Liabilities	3,436	3,064	2,885	2,763	2,701
Total Equity	770	(337)	(457)	(537)	(592)
Total Equity & Liabilities	4,205	2,727	2,427	2,226	2,109

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Internet/e-Commerce

Company Description

Peloton is the largest global interactive fitness platform, with a community of three million connected subscribers. The company offers a workout Bike, Tread and Rower which include a touchscreen that streams live and on-demand classes for indoor cycling, running, walking, bootcamp, yoga, strength training, and meditation. The company serves customers in the U.S., Canada, UK, and Germany, and is expanding to more countries.

Investment Rationale

Peloton offers an integrated solution that capitalizes on several trends including in-home fitness/health, subscription services, and on-demand streaming. However, we are cautious on the risk of increased subscriber churn and a lack of progress so far on growth initiatives which limits Peloton's ability to achieve breakeven to positive EBITDA.

Stock Data

Average Daily Volume 14,718,161

Quarterly Earnings Estimates

	2023	2024
Q1	-0.31A	-0.11A
Q2	-0.44A	-0.29A
Q3	-0.34A	-0.10E
Q4	-0.31A	0.02E

2Q24 Result: Positives and Negatives

Positives

- **Gross margin exceeds Street est:** 2Q Gross margin was at 40.3%, slight above Street at 40.0% - hardware gross margin was better than expected with benefits from supply chain restructuring and lower logistics costs. Gross margin for F3Q was guided to 42.5% above Street at 41.7%, partly due to an improvement in Connected Fitness hardware gross margin due to the introduction of Tread+ deliveries.
- **Paid Connected Fitness and digital subs above Street:** Ending Paid Connected Fitness Subscribers at 3,004k (+0.8% y/y) was slightly above street at 2,980k, aided by stronger than expected bike rentals, and higher than anticipated secondary market activations. The low end of full year guidance was raised by 20k to 2,990k-3,010k. Paid app (digital) subscribers at 718k also exceeded Street est. of 692.6k, with premium tier App+ subscriptions tracking well though the full year forecast was lowered by 50k at the high end.
- **Improvement in Connected Fitness Sub churn in 2Q:** Paid Connected Fitness subscription churn at 1.2% (vs Street at 1.37%) was positively impacted by fewer than anticipated new subscription pause requests as well as faster than anticipated reactivation rates for subscription pauses associated with seat-post recall. 3Q churn is expected to be similar to 2Q but be seasonally higher in 4Q.

Negatives

- **Soft Hardware sales impacting 2H24:** For F3Q, revenue guidance was \$715-750mn, with Street near the high-end at \$747mn. Outlook suggests softer than earlier expected hardware sales, partially offset by faster growth for Bike rental program and revenue from deliveries of Tread+. Mgmt. expects to reach positive revenue growth in 4Q24.
- **EBITDA outlook lower vs Street:** For F3Q, EBITDA guidance was \$(30)-(20)mn, vs Street at \$(8.5)mn. While S&M spend is expected to reduce sequentially, G&A spend is expected to remain elevated (roughly inline with 2Q on a dollar basis) on customer support related improvements. Despite the miss in 2Q and weaker than expected guidance in 3Q, management maintained FY guidance which we believe may be difficult to achieve unless subscriber count accelerates.
- **FCF remains negative and breakeven outlook pushed further:** Peloton 2Q24 free cash flow was \$(37.1)mn. The company has again pushed out their forecast of turning FCF positive to Q4 (vs earlier outlook of 2H24) but is expected to fall short of achieving their earlier goal of being FCF positive for the full year.



Actuals vs Estimates

Exhibit 1: PTON: Actual vs Estimates

While Revenue was slightly above estimates, EBITDA missed estimates

	BofA est. F2Q	Actual F2Q	Act vs BofA Difference
Revenues			
Connected Fitness Product	335	319	(16)
Y/Y	-12%	-16%	-4%
Subscription	406	425	18
Y/Y	-1%	3%	4%
Total Revenue	741	744	2
Y/Y	-6%	-6%	0%
Cost of revenue (GAAP)	447	444	(3)
As a % of revenue	60.3%	59.7%	-0.5%
Gross Profit (GAAP)	295	299	5
Gross Margin	39.7%	40.3%	0.5%
Connected Fitness Product Gross Margin	3.0%	4.3%	1.3%
Subscription Gross Margin	70.0%	67.3%	-2.7%
Marketing and Sales	213	230	17
Research and Development	83	80	(3)
General and Administrative	165	161	(4)
SBC	69	67	(3)
Total Opex GAAP	462	487	25
Operating Income - GAAP	(167)	(187)	(20)
Margin	-23%	-25%	-3%
GAAP EPS	(\$0.49)	(\$0.54)	(\$0.04)
Adjusted EBITDA	(70)	(81.7)	(12)
Margin	-9.4%	-11.0%	-1.5%
Subscriber Metrics:			
Paid Connected Fitness Subscribers	2,979	3,004	25
Digital Subscribers	678	718	40
Monthly Net Churn	1.35%	1.20%	-0.15%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Estimate changes

Exhibit 2: Estimate changes (\$mn except per share data, Subscribers in thousands)

We reduce 2024 revenue estimates on lower subs

	F3Q24 Estimates			2024 Estimates			2025 Estimates		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues									
Connected Fitness Product	337	294	(42)	1,074	1,005	(69)	1,016	883	(133)
Y/Y	4%	-9%	-13%	-5%	-11%	-6%	-5%	-12%	-7%
Subscription	408	430	23	1,638	1,700	62	1,615	1,700	86
Y/Y	-4%	1%	5%	-2%	2%	4%	-1%	0%	1%
Total Revenue	744	724	(20)	2,711	2,705	(7)	2,631	2,584	(47)
Y/Y	-1%	-3%	-3%	-3%	-3%	0%	-3%	-4%	-2%
Cost of revenue (GAAP)	441	427	(14)	1,529	1,528	(1)	1,450	1,400	(50)
As a % of revenue	59.3%	59.0%	-0.3%	56.4%	56.5%	0.1%	55.1%	54.2%	-0.9%
Gross Profit (GAAP)	303	297	(6)	1,182	1,176	(5)	1,181	1,184	3
Gross Margin	40.7%	41.0%	0.3%	43.6%	43.5%	-0.1%	44.9%	45.8%	0.9%
Marketing and Sales	147	176	29	641	684	44	608	629	21
Research and Development	83	79	(4)	329	318	(12)	331	325	(6)
General and Administrative	164	160	(4)	648	632	(15)	651	643	(8)
SBC	67	66	(1)	276	264	(12)	269	258	(11)
Total Opex GAAP	394	415	21	1,659	1,692	32	1,591	1,598	7
Operating Income - GAAP	(91)	(118)	(27)	(478)	(516)	(38)	(409)	(414)	(5)
Margin	-12%	-16%	-4%	-18%	-19%	-1%	-16%	-16%	0%
GAAP EPS	(\$0.28)	(\$0.35)	(\$0.07)	(\$1.48)	(\$1.58)	(\$0.09)	(\$1.22)	(\$1.23)	(\$0.01)
Adjusted EBITDA	5	(25)	(30)	(82)	(81)	1	(32)	(49)	(17)
Margin	0.6%	-3.5%	-4.1%	-3.0%	-3.0%	0.0%	-1.2%	-1.9%	-0.7%
FCF	1	(46)	(47)	(91)	(153)	(62)	(6)	(106)	(100)
Capital Expenditures	(6)	(6)	0	(22)	(22)	0	(27)	(27)	0

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Peloton (PTON)

Our \$4.00 price objective is based on 2.25x 2025 subscriber gross profit/EV. We do not include Peloton's hardware segment (40% of revenues) in our valuation given immaterial gross margins. This represents a discount to subscriber comps which trade at 5.3x gross profit/EV which we believe is warranted given lower EBITDA margins & FCF generation and revenue growth.

Upside risk to our PO are: 1) stabilization in monthly churn trends, 2) better than expected subscriber growth from growth initiatives including FaaS, new app strategy and expanded partnerships, 3) positive hardware gross margins from manufacturing and supply chain efficiencies, and 4) achieving breakeven to positive EBITDA if Peloton is able to reaccelerate connected subscriber revenue.

Downside risks to our PO are: 1) higher subscriber churn as COVID cohorts mature, 2) lower than expected revenue from growth initiatives, 3) limited traction in new international markets, 4) reopening and shift back to in-person fitness, and 5) uncertain TAM given high upfront costs.

Analyst Certification

I, Curtis Nagle, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA

UNDERPERFORM

	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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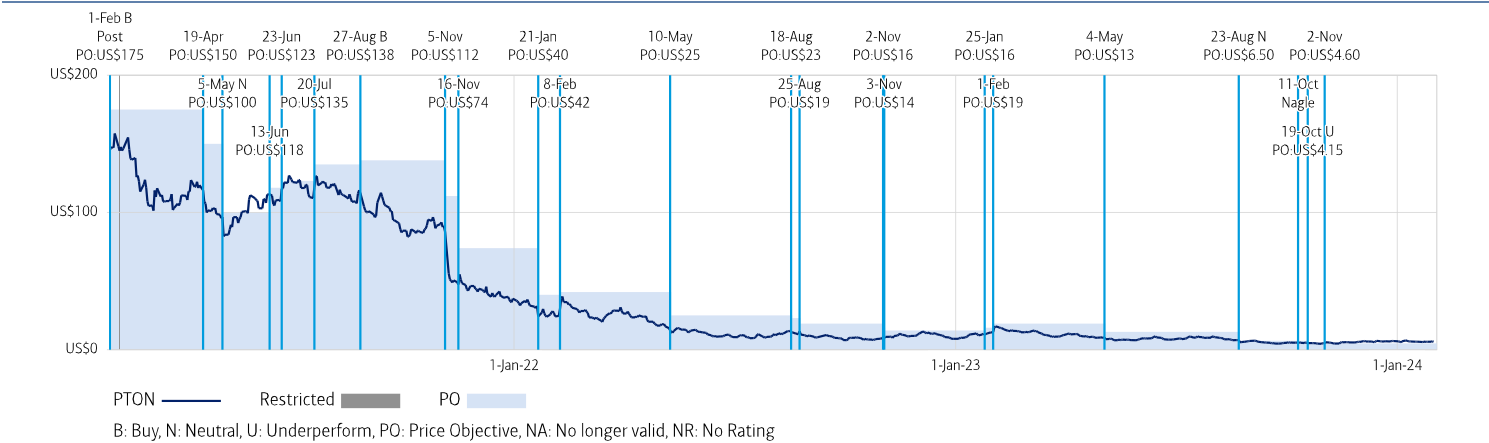
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Disclosures

Important Disclosures

Peloton (PTON) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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