

Peloton

F2Q24 Preview: Expect flat subs in-line w/ Street but promotions impact margins

Maintain Rating: UNDERPERFORM | PO: 4.60 USD | Price: 5.80 USD

Holiday promotions may boost sales but impact margins

Peloton reports on Thursday, 02/01 pre-market. For F2Q24, we are slightly above the Street for revenue and expect net Connected Fitness subs in-line with Street. The quarter saw steady trends with a modest uptick in web traffic, stable DAU and download trends, low traffic activity on Peloton cancellation pages, we expect inline connected fitness and digital subs (higher end of company guided range). 2Q is also seasonally stronger for hardware sales. Peloton held promotional events (elevated S&M spend) during the holiday season and had a Prime Day sale in F2Q'24, which could aid subs but pressure margins if customer reception was strong.

Low return/recall/cancel site traffic indicates low churn

Organic US search desktop traffic for Peloton product returns was near an all-time low in December quarter. Total visits to cancellation pages in F2Q were down 56% y/y and down 39% q/q. The data suggests that churn increased slightly in December, potentially due to the new pricing for existing digital-only members coming into effect (Tuesday, December 5, 2023). We view this as a positive indicator but Jan/Dec is typically a period of low churn given the New Years Effect and may not continue through the year.

Looking for commentary on partnerships impact to subs

Key topics on earnings call include: 1) impact of key partnerships in the last few months like Lululemon and [Tiktok \(see Jan 4 report\)](#) (detail on economics), 2) holiday season and January sales trends, 3) the relaunch of the \$5,995 Tread+ in December, 4) further app traction post relaunch in May'23, 5) FAAS traction, 6) refocus on international markets including new marketing in Europe (and to a lesser extent the launch of row in Canada), 7) the progress of Peloton's B2B service, 8) initiatives to drive better connected fitness sub growth in FY24 after a reopening impacted FY23, 9) outlook for connected fitness product gross margin, and 10) outlook for FY24 FCF (we expect positive FCF only in 2H24).

Maintain Underperform on soft subscriber trends

We maintain our Underperform rating and \$4.6 PO which is based on a 2.3x 2025 EV/gross profit multiple for the subscription segment (vs comp group avg at 4.8x) and no value for the Connected Fitness Product segment (which likely has negative value in stock today). We think benefits growth from partnerships, rentals and app expansion could take time to scale and are not material enough to offset still soft subscriber trends for the core connected fitness base the near-to-medium. The refinancing of \$1bn of convertible notes (issued in Feb '21 and maturing in Feb '26) also remains a risk.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(4.11)	(1.33)	(0.31)	(0.12)	(0.05)
GAAP EPS	(8.74)	(3.64)	(1.48)	(1.22)	(1.25)
EPS Change (YoY)	NM	67.6%	76.7%	61.3%	58.3%
Consensus EPS (Bloomberg)			(1.36)	(1.00)	(0.77)
DPS	0	0	0	5.00	5.00
Valuation (Jun)					
Dividend Yield	0%	0%	0%	86.2%	86.2%
Free Cash Flow Yield*	-118.7%	-23.7%	-4.6%	-0.3%	-6.8%

* For full definitions of *IQmethod*SM measures, see page 11.

29 January 2024

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Stock Data

Price	5.80 USD
Price Objective	4.60 USD
Date Established	2-Nov-2023
Investment Opinion	C-3-9
52-Week Range	4.28 USD - 17.83 USD
Mkt Val (mn) / Shares Out (mn)	1,986 USD / 342.4
Free Float	96.3%
Average Daily Value (mn)	86.26 USD
BofA Ticker / Exchange	PTON / NAS
Bloomberg / Reuters	PTON US / PTON.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Jun-2023A)	NA
ESGMeter™	Medium

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FAAS – fitness as a service, referencing Peloton's bike rental + subscription offering

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iQprofileSM Peloton

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-34.9%	-14.1%	-2.6%	-1.6%	-0.5%
Return on Equity	-105.0%	-213.1%	NM	NM	NM
Operating Margin	-34.4%	-14.2%	-2.1%	-1.3%	-0.3%
Free Cash Flow	(2,357)	(470)	(91)	(6)	(135)

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	0.2x	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	2,711	2,631	2,992
% Change	-10.9%	-21.8%	-3.2%	-3.0%	13.7%
Gross Profit	787	1,031	1,274	1,270	1,295
% Change	-48.1%	31.0%	23.5%	-0.3%	2.0%
EBITDA	(926)	(209)	(82)	(32)	(6)
% Change	NM	77.5%	60.6%	61.4%	80.2%
Net Interest & Other Income	(74)	(61)	(54)	(8)	(8)
Net Income (Adjusted)	(1,325)	(461)	(112)	(45)	(19)
% Change	NM	65.2%	75.6%	60.3%	57.5%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(2,817)	(1,262)	(538)	(454)	(475)
Depreciation & Amortization	143	124	117	108	121
Change in Working Capital	(641)	114	6	83	(72)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,278	636	345	283	318
Capital Expenditure	(320)	(82)	(22)	(27)	(27)
Free Cash Flow	-2,357	-470	-91	-6	-135
% Change	-390.4%	80.0%	80.6%	93.5%	NM
Share / Issue Repurchase	84	80	11	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	696	(8)	(4)	(2)	(2)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,254	814	880	873	736
Trade Receivables	84	97	95	78	98
Other Current Assets	1,297	728	540	366	410
Property, Plant & Equipment	788	403	420	420	420
Other Non-Current Assets	783	685	657	651	647
Total Assets	4,205	2,727	2,593	2,388	2,312
Short-Term Debt	8	8	8	8	8
Other Current Liabilities	1,098	754	643	578	626
Long-Term Debt	725	594	526	446	366
Other Non-Current Liabilities	1,605	1,709	1,708	1,708	1,708
Total Liabilities	3,436	3,064	2,885	2,740	2,708
Total Equity	770	(337)	(292)	(351)	(396)
Total Equity & Liabilities	4,205	2,727	2,593	2,388	2,312

* For full definitions of iQmethodSM measures, see page 11.

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 14,850,326

Quarterly Earnings Estimates

	2023	2024
Q1	-0.31A	-0.15A
Q2	-0.44A	-0.22A
Q3	-0.34A	-0.01E
Q4	-0.31A	0.01E

FY2Q'24 key metrics preview

Peloton reports on Thursday, 02/01 pre-market. For F2Q24, we are slightly above the Street for revenue and expect net Connected Fitness (CF) subs in-line with Street. The quarter saw steady trends with a modest uptick in web traffic, stable DAU and download trends, low traffic activity on Peloton cancellation pages, we expect inline connected fitness and digital subs (higher end of company guided range). Peloton held promotional events during the holiday season and had a Prime Day sale in F2Q'24, which could aid subs but pressure gross margins if customer reception was strong.

For F3Q24, we estimate revenue/EBITDA of \$744mn/\$5mn, vs Street at \$747mn/- \$5mn, on lower Paid CF subscribers. For FY24, we are at \$2.71bn for revenue, below Street at \$2.74bn. We estimate Connected Fitness Subscribers net reduction of 28k (vs Street at flat y/y per Visible Alpha).

Total visits to cancellation pages in F2Q were down 56% y/y and down 39% q/q. The data suggests that churn increased slightly in December, potentially due to the new pricing for existing digital-only members coming into effect (Tuesday, December 5, 2023). We view this as a positive indicator for churn going into fiscal 2Q24. We view this as a positive indicator but Jan/Dec is typically a period of low churn given the New Years Effect of people committing to workout regimes and may not carry through the year when seasonal churn increases (typically summer).

Exhibit 1: F2Q Key Metrics vs. the Street (\$mns, Subscribers in thousands)

We are slightly above the Street on revenue and above on EBTIDA due to lower opex

	2Q24			FY24			FY25		
	BofA	Street	Variance	BofA	Street	Variance	BofA	Street	Variance
Total Revenue	741	736	0.7%	2,711	2,736	-0.9%	2,631	2,860	-8.0%
Connected Fitness Subscriber Revenue	375	388	-3.5%	1,514	1,566	-3.3%	1,477	1,610	-8.2%
Paid Connected Fitness Subscriptions	2,979	2,980	0.0%	2,969.0	2,995.5	-0.9%	2,869.0	3,044.9	-5.8%
Monthly churn %	1.4%	1.4%	(2)	1.4%	1.4%	0	1.5%	1.4%	10
\$ per sub (monthly)	42.0	43.7	-3.9%	42.3	43.7	-3.3%	42.2	44.7	-5.6%
Connected Fitness Product Revenue	335	319	4.8%	1,074	1,049	2.3%	1,016	1,119	-9.2%
Digital Subscription Revenue	31.0	28.5	9.0%	120.5	118.3	1.9%	134.8	129.9	3.8%
Digital Subscribers	678.0	692.6	-2.1%	753.0	774.4	-2.8%	823.0	857.1	-4.0%
\$ per sub (monthly)	14.4	13.4	7.2%	12.7	13.2	-3.6%	14.3	14.1	1.3%
Gross profit	318	318	-0.2%	1,274	1,312	-2.9%	1,270	1,405	-9.7%
Sales & Marketing	200	209	-4.4%	579	630	-8.1%	556	630	-11.7%
G&A	122	129	-5.1%	489	500	-2.3%	484	500	-3.2%
R&D	66	66	-0.5%	264	257	2.7%	264	257	2.7%
EBITDA	(70.0)	(76.2)	8.1%	(82.0)	(40.0)	-105.3%	(31.7)	60.2	NA
EBITDA Margin	-9.4%	-10.3%	91	-3.0%	-1.5%	(157)	-1.2%	2.1%	(331)

Source: BofA Global Research Estimates, Visible Alpha

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Key company initiatives since the last earnings call have included:

- Partnership with TikTok:** On 4th Jan'24, Peloton announced an exclusive partnership with TikTok, featuring a new generation of fitness content and creators. The new fitness hub on TikTok will have a co-branded hub with custom Peloton content (#TikTokFitness Powered by Peloton), available in the US, UK and Canada. Content will include select live Peloton classes with and without equipment required, original Instructor series, ongoing creator partnerships, Peloton class clips, and celebrity collaborations. It gives Peloton access to TikTok's 1bn users, and broadens reach to an audience that is likely younger than the core subscriber. We look for details on the economics of the deal. Peloton has not provided any details yet but the "Ad" designation in landing page banner suggests some payment/fee to TikTok.



- **Partnership with New York Road Runners:** Starting with the TCS New York City Marathon (5th Nov'23), New York Road Runners (NYRR) and Peloton have announced a multi-year partnership to bring NYRR races to life to runners around the world through Peloton Scenic and Outdoor content. The audio classes will release in late 2023 with Scenic content launching in the spring of 2024 on the Peloton Tread/Tread+. Peloton will be a Strategic Partner of NYRR's through 2025 in the Digital Fitness category, as the brands work together to create motivational fitness content accessible to runners of all abilities. As a new Strategic Partner, Peloton will also activate around the United Airlines NYC Half and the RBC Brooklyn Half.
- **New Chief Marketing Officer and Chief Product Officer appointed:** On 14th Dec'23, Peloton announced the appointment of Lauren Weinberg as Peloton's new Chief Marketing Officer (CMO), following the resignation of Leslie Berland after less than a year in the role (Berland was appointed CFO for Verizon). Weinberg will oversee brand and product marketing, growth marketing, creative, consumer insights, membership, and global communications. On 26th Sep'23, Peloton had also announced the appointment Nick Caldwell as Chief Product Officer (CPO), effective November 1, 2023.
- **Expansion of product offerings in Canada:** Peloton Row will be available in Canada starting 2023 holiday season. The addition of Peloton Row will bring a unique low-impact, full-body cardio and strength workout to the existing portfolio of Peloton equipment in the market, including Peloton Bike, Peloton Bike+, Peloton Guide and Peloton Tread.
- **Holiday & Prime Day deals/discounts:** Peloton offers discounts during holiday sales like Labor Day and Black Friday, but the Amazon sales like Prime Day offers some of the steepest discounts. As a part of Amazon's Big Deal Days sale (aka October Prime Day)—which runs from October 10 through October 11, the Original Peloton Bike is \$350 off, bringing the total down to \$1,095—the lowest price we've seen on the bike. The offer also includes free Prime delivery. The Peloton Bike+—the premium model from the fitness brand—is also on sale during October Prime Day 2023 for \$1995, which is a 20% discount overall. We think discounting was anticipated in company's F2Q guidance, but strong customer response may drive some incremental sales at lower margins.

Peloton extended their 2023 Black Friday and Cyber Monday offers an extra week through 5th Dec'23 with saving up to \$700 on Bike+ and \$550 on Bike. This was followed by Peloton's holiday deals from 6th Dec to 25th Dec'23, and New Year discounts from 26th Dec'23 to 9th Jan'24. However, the discounts this year were better for the Black Friday week than New year discounts. Versus 2022 Black Friday, discounts seem to be better - Bike (\$1,095 vs \$1,145), Bike + (\$1,995 vs \$2,195) and Tread (\$2,695 vs \$3,195).

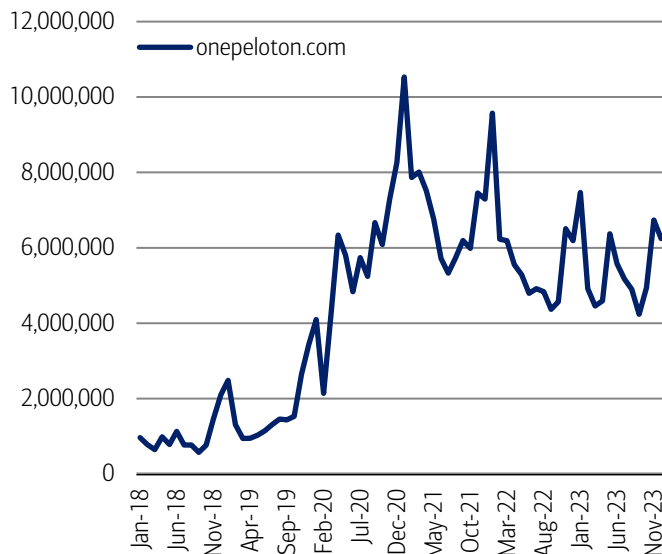
Data update

Site visits accelerated in FY2Q, but decelerated monthly

Per SimilarWeb, monthly total visits to Peloton's (US, Canada, UK, Germany, and Australia) y/y growth decelerated continuously from +8% in Oct'23 to 1% in Dec'23. Total estimated visits to Peloton's US site in December were 6.2mn, down from 6.7mn in November and up compared to 4.9mn in October. Total visits to Peloton's (US, Canada, UK, Germany and Australia) sites for F2Q24 grew 3% y/y, vs up flat in F1Q24 (Jul-Sep'23).

Exhibit 2: Monthly total visits to Peloton's US site

Monthly total visits to Peloton's US site in September at 4.2mn

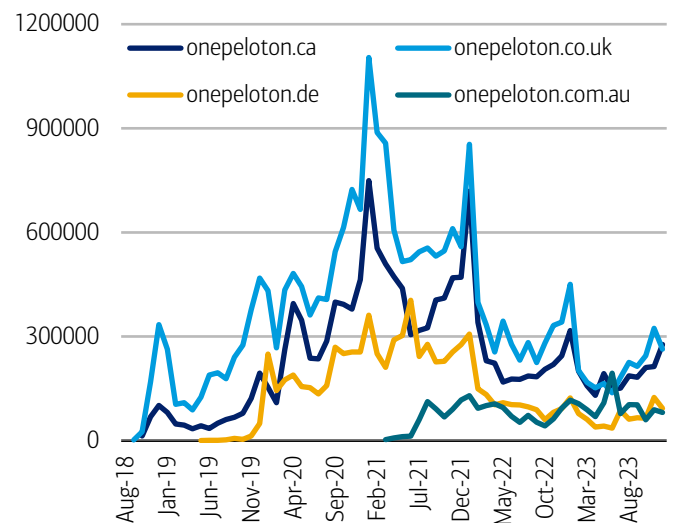


Source: SimilarWeb

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Exhibit 3: Monthly total visits to Canada, UK, Germany and AUS

Monthly total visits to Peloton's US, Canada, UK, Germany, and Australia sites were down 2% in September



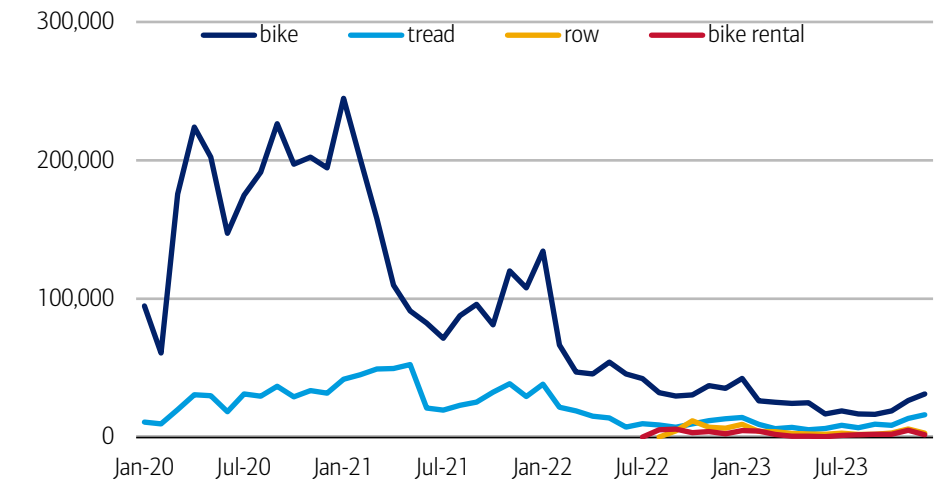
Source: SimilarWeb

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Organic search traffic (Google) for Peloton's US Bike site was down 26% y/y in December quarter (F2Q24) vs down 50% in Sept quarter (F1Q24). Organic search traffic for Peloton's US Tread site was up 10% in the December quarter vs down 3% in the September quarter. Organic search traffic for Peloton's US Rower site since launch was at 11.6k in F2Q, below bike at 76.4k and tread at 38.1k. Organic search traffic for Peloton's rental program in December quarter was at 8.6k, below Rower, Bike, and Tread. **The ratio of organic search traffic to Bike, Tread and Rower was 57%/28%/9% in December quarter.**

Exhibit 4: Organic search traffic from Google to Peloton's US sites (desktop only)

For F2Q, organic search traffic for Peloton's US Bike site was down y/y, but Tread site was up y/y



Source: SimilarWeb

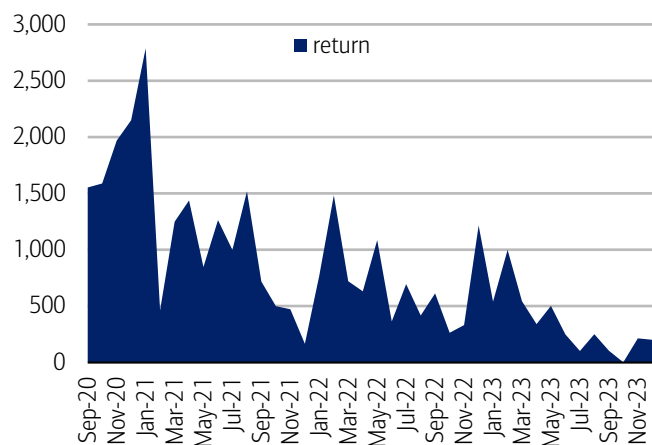
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Product return and recall website traffic remains low

Organic US search traffic for Peloton product returns was near an all-time low in December quarter. Product recalls also remained low with a slight uptick in November, but much lower vs the sharp rise last seen in May'23. On 11th May, Peloton and The United States Consumer Product Safety Commission (CPSC) had issued a voluntary recall of some 2.2mn original Peloton Bikes (model PL-01) sold in the US between January 2018 and May 2023. The recall was due to concerns surrounding a seat post that could break during use, possibly leading to falls and injury.

Exhibit 5: Organic search traffic from Google to return pages in onepeloton.com (desktop only)

Overall cancel and return traffic remains near historic lows

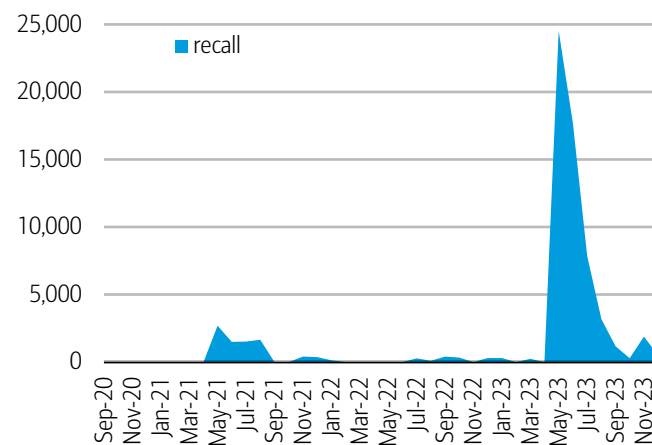


Source: SimilarWeb

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Exhibit 6: Organic search traffic from Google to recall pages in onepeloton.com (desktop only)

Recall traffic has also been low after the sharp spike in May'23



Source: SimilarWeb

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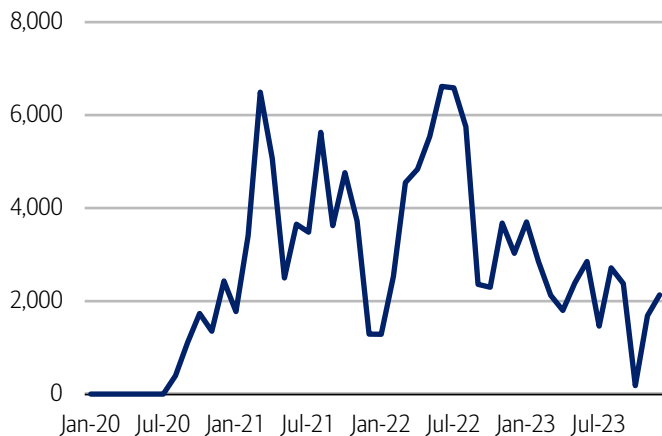
Cancellations saw some uptick in December

Total visits to cancellation pages in F2Q were down 56% y/y and down 39% q/q. The data suggests that churn slightly increased sequentially from October to December, but remains well below peak levels. The cancellation rate could have gone up in December

when the new pricing for existing digital-only members came into effect (Tuesday, December 5, 2023).

Exhibit 7: Monthly web visits to Peloton cancellation pages

The data suggests that churn increased slightly in December, but has been relatively low

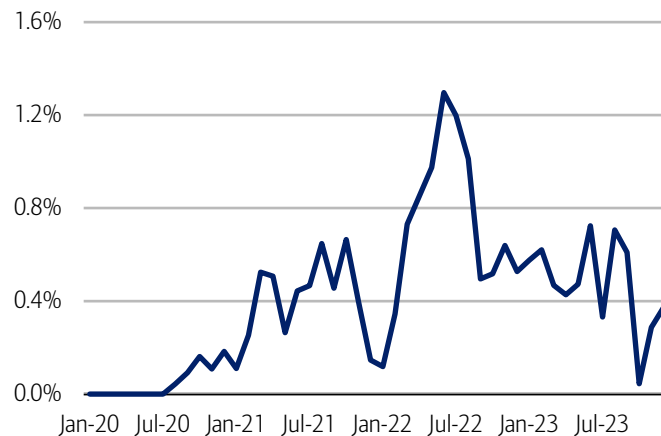


Source: SimilarWeb

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Exhibit 8: % share of total web visits to cancellation pages

The data suggests that churn increased slightly in December, but has been relatively low



Source: SimilarWeb

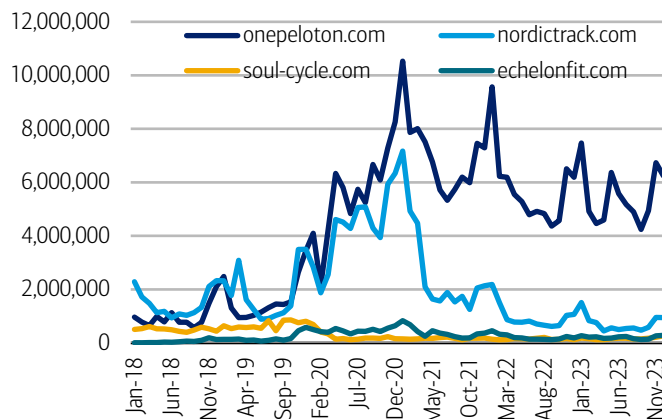
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Peloton traffic remains well above competitors

Monthly web traffic to Peloton site over the last 12 months has been well ahead of its competitors including, NordicTrack, Flywheel, Echelon Fit and SoulCycle and LTM (last twelve months) data suggests Peloton has maintained its lead. However, over the last 1- few months, competitors like Soul-cycle have seen some acceleration in site visit y/y growth.

Exhibit 9: Monthly visits to competitive bike fitness sites

Monthly web traffic to Peloton site over the last 12 months has been well ahead of its competitors.

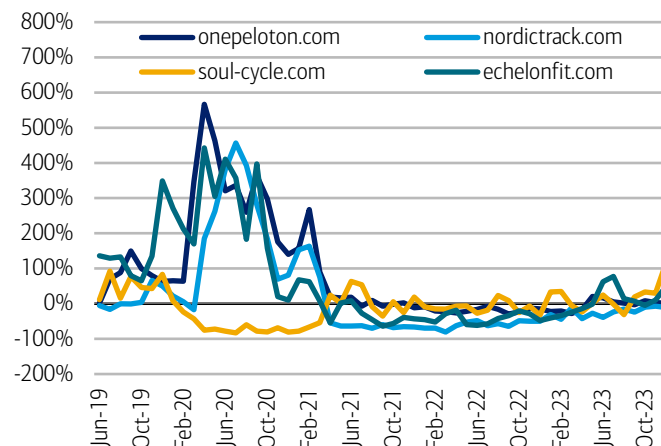


Source: SimilarWeb

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Exhibit 10: Monthly visits y/y growth

Growth for some competitors has accelerated over the last few months



Source: SimilarWeb

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Downloads and DAU trend improve in December, good F2Q overall

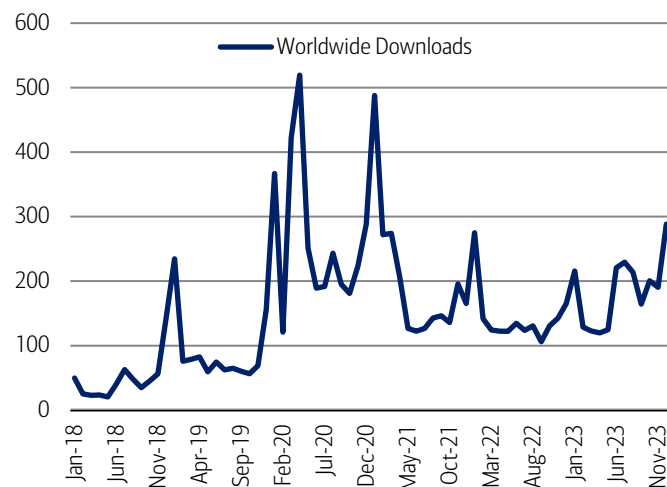
Per SensorTower, Peloton app downloads on iOS and Android were 680k in F2Q'24 (vs 607k in F1Q'24) representing a 12% q/q growth. This compares to a up 31% q/q in



F1Q'24 vs F4Q23. On a y/y basis, downloads were up 55% y/y in F2Q'24, vs up 69% y/y in F1Q'24. In December, Peloton app downloads were up 75% y/y, vs up 33% in November and, up 53% in October. We note SensorTower app downloads data is more indicative of Peloton digital subscriptions vs Connected Fitness Subscriptions and does not differentiate between payer and non-payers users. Peloton app DAUs (daily active user) averaged around 182k in F2Q, up 4% y/y. This is an acceleration vs -1% y/y in F1Q. DAUs were higher in December at around 191k vs Nov/Oct average at 177k.

Exhibit 11: Peloton monthly downloads (000's iOS & Android)

On a y/y basis, downloads were up 55% y/y in F2Q'24.

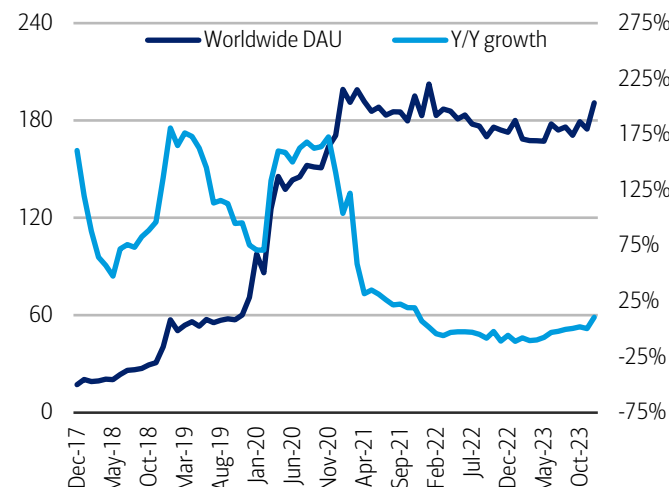


Source: SensorTower

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Exhibit 12: Peloton monthly DAU trends (000's iOS & Android)

On a y/y basis, DAUs were up 4% y/y in F2Q'24.



Source: SensorTower

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Stock valuation framework

We maintain our Underperform rating and \$4.6 PO which is based on a 2.3x 2025 EV/gross profit multiple for the subscription segment (vs comps median at 4.8x) and no value for the Connected Fitness Product segment. We believe a lower multiple vs subscription peers is warranted given lower estimates, growing risk from subscriber churn and less confidence in Peloton achieving break-even EBITDA through at least 2024.

Exhibit 14: Sum-of-the-parts valuation

Our SOTP valuation applies a 2.3x 2025 EV/GP multiple for subscription segment and 0x 2025 EV/S to Connected Fitness Product segment.

Sum-of-the-Parts Valuation

Connected Fitness Product

Connected Fitness Product 2025 Revenue	\$1,162
Fitness Product Revenue Multiple	0.0x

Connected Fitness Product EV

	\$0
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Subscription

Subscription CY25 Gross Profit	\$1,126
Subscription Gross Profit Multiple	2.3x

Subscription EV

	\$2,565
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Sum-of-the-Parts

Connected Fitness Product EV	\$0
Subscription EV	\$2,565

Peloton Enterprise Value

	\$2,565
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Net Cash

2025 Total Net Cash	-\$807
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Exhibit 14: Sum-of-the-parts valuation

Our SOTP valuation applies a 2.3x 2025 EV/GP multiple for subscription segment and 0x 2025 EV/S to Connected Fitness Product segment.

Sum-of-the-Parts Valuation

Add: Net Cash	(\$807)
Market Capitalization	\$1,757
FY'25 YE Diluted Shares Outstanding	382
Price Objective (rounded)	\$4.60

Source: BofA Global Research, Bloomberg

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Exhibit 15: Subscription peers valuation comp table

Peers trading at EV/GP median of 4.8x on 2025E.

Company	Ticker	Price 26-Jan	Sales		Gross Profit			EBITDA			Enterprise Value					
			Growth 2024	Growth 2025	Growth 2024	Margin 2024	Margin 2025	Growth 2024	Margin 2024	Margin 2025	Sales 2024	Sales 2025	Gross Profit 2024	Gross Profit 2025	EBITDA 2024	EBITDA 2025
Peloton	PTON	\$5.8	-2%	5%	1%	45%	47%	206%	2%	5%	1.3x	1.2x	2.9x	2.7x	75x	27x
Subscription Services																
Bumble	BMBL	\$14.2	13%	13%	13%	71%	71%	16%	27%	27%	1.7x	1.5x	2.4x	2.1x	6x	6x
Duolingo	DUOL	\$192.89	32%	26%	33%	74%	74%	68%	22%	26%	13.0x	10.3x	17.6x	14.0x	60x	40x
LegalZoom	LZ	\$10.68	9%	11%	9%	66%	67%	16%	19%	20%	2.8x	2.5x	4.2x	3.7x	15x	12x
Match	MTCH	\$37.96	8%	9%	8%	70%	71%	7%	36%	36%	3.9x	3.6x	5.5x	5.1x	11x	10x
Netflix	NFLX	\$570.42	13%	10%	18%	43%	44%	28%	25%	27%	6.0x	5.4x	14.1x	12.3x	24x	20x
Spotify	SPOT	\$214.29	17%	13%	23%	27%	28%	343%	5%	7%	2.5x	2.2x	9.2x	7.9x	53x	33x
Squarespace	SQSP	\$32.57	15%	14%	11%	79%	78%	16%	24%	25%	4.1x	3.6x	5.2x	4.6x	17x	15x
Udemy	UDMY	\$14.37	15%	17%	20%	61%	64%	352%	3%	8%	1.8x	1.6x	3.0x	2.5x	62x	21x
Median			14%	13%	16%	68%	69%	22%	23%	25%	3.3x	3.0x	5.4x	4.8x	21x	18x

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

Peloton (PTON)

Our \$4.60 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.

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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

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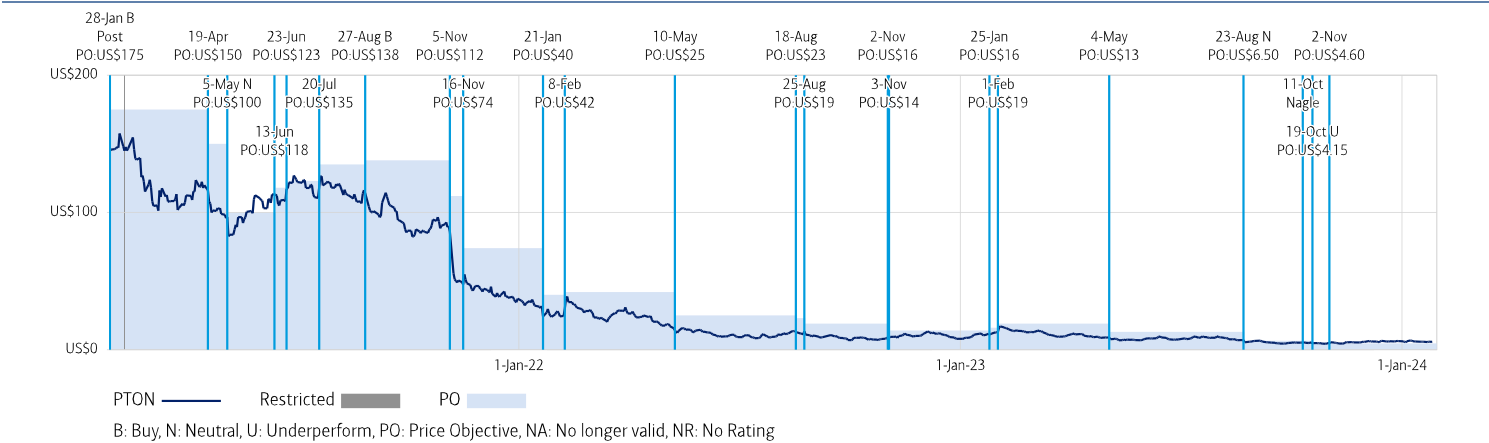
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Important Disclosures

Peloton (PTON) Price Chart



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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%

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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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